FINANCIAL SERVICES AND INSURANCE EMBRACE CLOUD FOR FLEXIBILITY, SECURITY AND INNOVATION
$414 Billion in Profits can be Gained Using Cloud for Business Growth: Infosys Research

EXPERIENCE CLOUD RADAR
Introduction

Financial institutions have historically housed their systems on-premises to maintain more control and better guard against security threats, but their reluctance to move to the cloud hindered their ability to scale. In the last few years, however, banks have begun to shift their views on the cloud. With the cloud’s significant advancements in security, scalability and reliability, the finance industry realizes it must exploit this digital technology.

Insurance companies have been more receptive to cloud adoption as they have had to prepare for and respond to disruptions on multiple fronts – from political and economic uncertainty to new regulations and shifting customer expectations – which requires scale and speed.

Infosys Knowledge Institute evaluated the financial services and insurance (FSI) industries in their latest Cloud Radar survey to better understand their cloud maturity and digital transformation trends. The survey uncovered immense progress in cloud adoption focused on creating more resilient, customer-centric enterprises.

“The need for agility is universal now. The demand for virtual agents and direct-to-consumer models is increasing. While cloud adoption strategies will be nuanced, it is imperative to manage the continued growth expectation and reduce technology debt.”

Kannan Amaresh
Senior Vice President &
Global Head – Insurance, Infosys

Financial service and insurance businesses are rarely early adopters, but compelling reasons to adopt cloud have come into focus for this industry cluster, according to our survey respondents.
Growth in cloud adoption

From 2018 to 2020, cloud adoption at an enterprise level doubled across industries and geographies. In 2020, more than 20% of infrastructure, platforms and applications moved to the cloud, and that number is poised to reach 42% by 2022. Infosys cloud experts attribute some of this acceleration to the COVID-19 outbreak but note this upward trend will continue and accelerate further post-pandemic.

As an industry cluster, FSI trails the average Cloud Radar Performance Index score. Individually, financial service providers land above average in cloud performance while the insurance sector remains one of the top cloud adoption leaders. As they replace legacy platforms, insurers are scaling up the digitization and automation of traditional processes and reporting requirements. In fact, a growing number of large insurers are using cloud deployments to support complex policy administration and billing.¹

“Financial services institutions are leveraging cloud for digital transformation, creating new customer journeys and driving business agility. They are accelerating cloud adoption with a factory model and increasingly moving to hybrid multi-cloud states in a secure way. Some of them are also focusing on cloud neutral and multi-cloud portability. The focus is also shifting to modernizing applications, building new cloud native platforms and unlocking the power of their data on cloud with analytics and AI/ML use cases.”

Dennis Gada
Senior Vice President & Head – Financial Services, North America, Infosys
There is a direct correlation between the effectiveness of an enterprise’s cloud adoption and the returns they generate. Companies that have adopted cloud more completely are growing profits faster, moving business applications to the cloud more effectively, managing cloud spend more easily and attaining better results with data and artificial intelligence (AI). Yet, speed and capability benefits cannot be obtained until an enterprise reaches 60% cloud adoption, and Infosys found few are achieving this level. On average, less than one in five companies surveyed have moved 60% of their IT systems to the cloud.

In the FSI cluster, only 14% of respondents have achieved this optimal level to generate returns. As such, Infosys rated 36% as minimally effective in the cloud and only 14% as exceptional. These performance associations show there is much room for improvement. However, Infosys believes that as financial institutions put more faith in the cloud’s security and reliability, the majority of minimally effective to effective performers will advance quickly to the highly effective cohort.

As cloud adoption and maturity levels continue to grow, FSI business functions in the cloud have advanced slightly more quickly than IT shifts to the cloud. Business and IT in the cloud advanced 7% and 8% from two years ago, and respondents say they plan to quicken the pace in the coming two years. While FSI lags behind some other industries evaluated in the survey, their positive trajectory is a step in the right direction.

In general, private cloud is the preferred solution across industries. FSI enterprises are no different. They utilize private cloud (41%) to house most of their systems, followed by hybrid cloud (31%) and public cloud (29%). Reliance on a private cloud architecture aligns with this sector’s top concern for security. This trend will not change, especially in the financial services sector, where personal identifiable information and other confidential data are omnipresent.

To differentiate in the market, enterprises must find ways to not only scale and store enormous amounts of data but also mine the data. AI plays a key role in capturing, processing and analyzing customer information in the FSI sector. With scalable cloud services, enterprises are doing just that. In this industry cluster, 29% are considered very developed when integrating AI capabilities, while 45% are somewhat developed. These very developed enterprises are just ahead of the overall industry average.
Shift from defensive to offensive priorities

Enterprises went on the defensive when the pandemic struck. Forced to shift their priorities, businesses struggled to enable a remote workforce while maintaining security, managing costs and meeting customer needs digitally. These defensive moves had little influence on business results, but they did lay the groundwork for more impactful future strategies. Enterprises are now focusing on more offensive goals to help them achieve massive scale, integrate more capabilities and provide real-time, deeper insights through the cloud. This shift in cloud goals results in a bow tie model where defensive priorities quickly decline as offensive priorities gain ground. Steady growth in speed, capabilities and scale lead to tremendous results for enterprises.

When the pandemic fast-tracked cloud adoption in 2020, the FSI sector reacted slightly slower to deploy their systems than other industries. However, they could scale quickly and improve their cloud capabilities and are on course to significantly improve all three of their offensive goals by 2022. Conversely, their priorities to provide remote access, manage costs and foster resilience will continue to drop as they meet those needs.

Financial service and insurance businesses had to focus more on remote accessibility in 2020, but will use cloud for new business opportunities in the future.

Changes in goals

![Graph showing changes in goals from 2018 to 2022]

Offense objectives
- Speed: Accelerate deployment
- Capability: Improve digital capabilities
- Scale: Achieve scale seamlessly

Defense objectives
- Access: Enable remote access
- Costs: Better manage costs
- Resilience and security: Foster business resilience
Emerging use cases for cloud

As FSI enterprises navigate their cloud adoption journey, these two sectors are generating greater returns by applying cloud services in specific use cases. Respondents say they plan to use the cloud to revolutionize their traditional processes and reporting requirements through digitization and automation (67%), connect to open banking systems with alternative payment options (57%) and expand their threat detection and fraud prevention efforts (55%).

Top ranked use cases

- Scale up digitization and automation of traditional processes and reporting requirements: 67%
- Connect to open banking systems and alternative payment systems: 57%
- Expand and coordinate threat detection and fraud prevention via cloud-native systems: 55%
- Enhance online and omnichannel customer experience: 50%
- Shift and modernize contact center and customer care: 52%
- Introduce real-time trade payment/flow tracking: 18%
Industry concerns about cloud

FSI firms clearly see the benefits of cloud migration, yet they are still hesitant to move all their IT and business systems to the cloud. While trust in storing critical information on the cloud continues to grow, enterprises remain concerned about the cloud’s overall security. In fact, when Infosys asked FSI respondents about their cloud concerns, security ranked at the top.

Top 3 concerns

- **Security** 43%
- **Increasing complexity of tech landscape** 37%
- **Regulation and compliance** 34%

Cybersecurity is a mounting threat for the financial services industry. According to a research report, almost two-thirds of large financial services companies suffered a cyberattack in 2020, while 45% experienced a rise in attack attempts since the start of the COVID-19 outbreak. The pandemic has also created opportunities for organized criminal groups that are doubling down their efforts with ransom and extortion tactics.

After security, FSI’s second-ranked concern is the increasing complexity of the technology landscape. Legacy infrastructure has been a widespread problem among FSI firms for years, with the industry continuing to rely on software programmed in outdated languages. Industry experts warn that migrating to cloud systems requires careful planning and security measures such as avoiding using legacy login credentials for new systems to avoid the threat of a breach.

Rounding out the top concerns is regulation and compliance. Of all the industries surveyed, the FSI cluster was the only group that ranked this as a major concern. Thomson Reuters Regulatory Intelligence states that even before COVID-19, financial services firms were facing immense regulatory compliance issues. While they say it is too early to tell how the pandemic will influence that inflection over the long term, regulators are already issuing revisions to rules. Firms are reacting by requesting various regulatory initiatives be postponed so they can focus on managing events.
Conclusion

Looking ahead, security will continue to be a growing concern for the FSI industries. The most mature cloud adopters and performers rate security as a top concern, far beyond other issues, suggesting that as more enterprises move to the cloud, security investments will be a key focus.

While this industry cluster currently trails others in their cloud programs, financial service providers lead in cloud performance. Cost control and enabling remote access were top priorities during the pandemic, but now that the initial foundational layers are in place, FSI firms are focused on exploiting the power of the cloud and digitalization to deliver enhanced customer experiences and establish market leadership.

References


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