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SUCCESSFUL STRATEGIES IN ADOPTING HYBRID CLOUD IN FINANCIAL SERVICES

Finextra

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01

FOREWORD

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The financial services industry is no stranger to the cloud. The concept of hybrid cloud is hardly new. As institutions look for competitive advantages, improved customer experience, agility, and efficiency, employing a hybrid cloud approach seem easy to envision.

At Red Hat, we engage and support many institutions in various stages of their hybrid cloud strategy. Some are in the planning stage, connecting existing technologies and cloud services into an integrated, cohesive, enterprise-level competency. Others are expanding their capabilities to find balance and achieve greater operational efficiency by standardizing across infrastructure footprints.

Whether planning or refining, most banks, and other financial services companies agree that to get at the cloud's actual value an enterprise-wide hybrid cloud strategy must be at the center of both their IT strategy and overall business strategy. Banks and other financial institutions need to drive innovation in their products and services as well as provide ease of access for customers and partners. Those that provide value will be successful, those that do not will find themselves struggling to attract new customers and retain the ones they have.

The complexity of the cloud and the platform needed to effectively leverage it often pushes institutions into being “all-in” or “mostly-in” with one single cloud provider. In fact, this at times becomes the default cloud strategy. However, building your entire strategy around the tools and technology of one single cloud provider limits the flexibility to leverage the strengths of other cloud providers and can expose your institution to potential operational, business, and regulatory risks. This is a growing concern of global regulators, particularly with respect to third partner outsourcing arrangements.

By no means does this imply that your strategy should be a cloud free-for-all. A successful hybrid cloud strategy should be grounded on a consistent infrastructure that supports various clouds, allowing you to build, monitor, and secure data and applications regardless of environment.

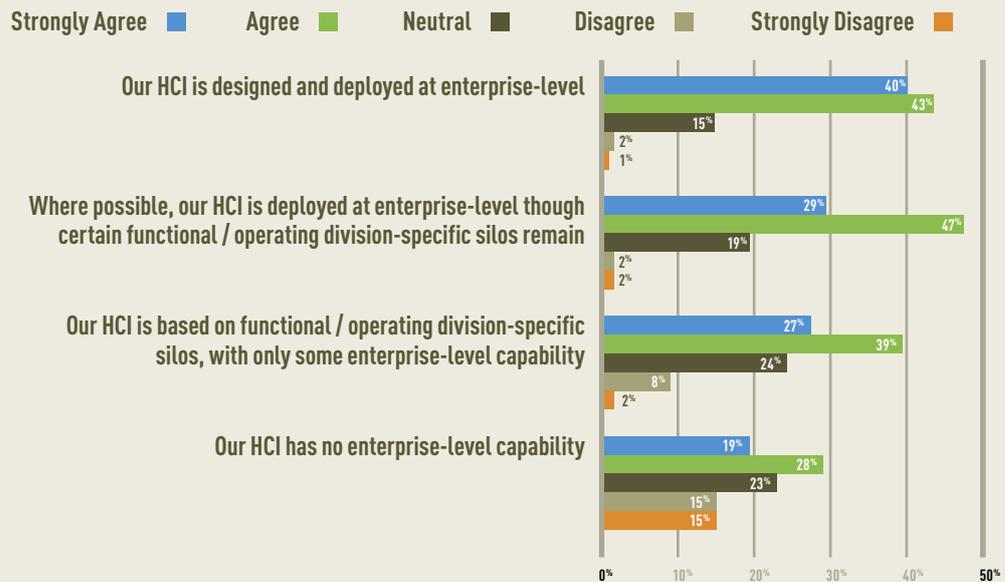
As you read through this paper consider how implementing an enterprise-wide hybrid cloud strategy allows your institution to gain the advantage of innovation without sacrificing freedom of choice.



01

HOW ORGANISATIONS ARE DEPLOYING HYBRID CLOUD INFRASTRUCTURES (HCI)

TO WHAT EXTENT DOES MY FINANCIAL INSTITUTION (FI) AGREE WITH THE FOLLOWING STATEMENTS ABOUT ITS HYBRID CLOUD INFRASTRUCTURE (HCI):



The benefits of profitability, cost-management, compliance, agility and efficiency gained from implementing a hybrid cloud strategy are hugely beneficial and yet there are hurdles to overcome to ensure success. This is the conclusion reached from the survey question.

An overwhelming 83% of respondents' preferred strategy is to design and deploy hybrid cloud at the enterprise level. It is an important contributor to the IT and business transformation of financial institutions and the innovative benefits they seek to deliver at scale and speed. But how much of its use should a business adopt?



The full value of hybrid cloud is derived from a holistic strategy, pursuing a transformation program, replacing dependency on disparate IT infrastructure and modernising the way a business performs ideally across the entire organisation. Where an organisation excludes certain business functions and operations from cloud adoption it is an exception as the response rate of 76% confirms.

Today, cloud computing is a reality and the use of a hybrid model widely accepted, but there are pitfalls to be aware of. Businesses moving to cloud should be clear on their objectives and goals. What's clear from the response is 66% of those surveyed have implemented a version of hybrid cloud at a largely functional / operational level. How did this arise?

Several common challenges prevent successful migration to a hybrid cloud solution and failure to manage them will often stall or prevent realising the opportunities and optimise the benefit. Some of the common mistakes include the lack of business in-house specialist expertise, failure to analyse the impact and adopt the right implementation strategies- all fundamental business requirements.

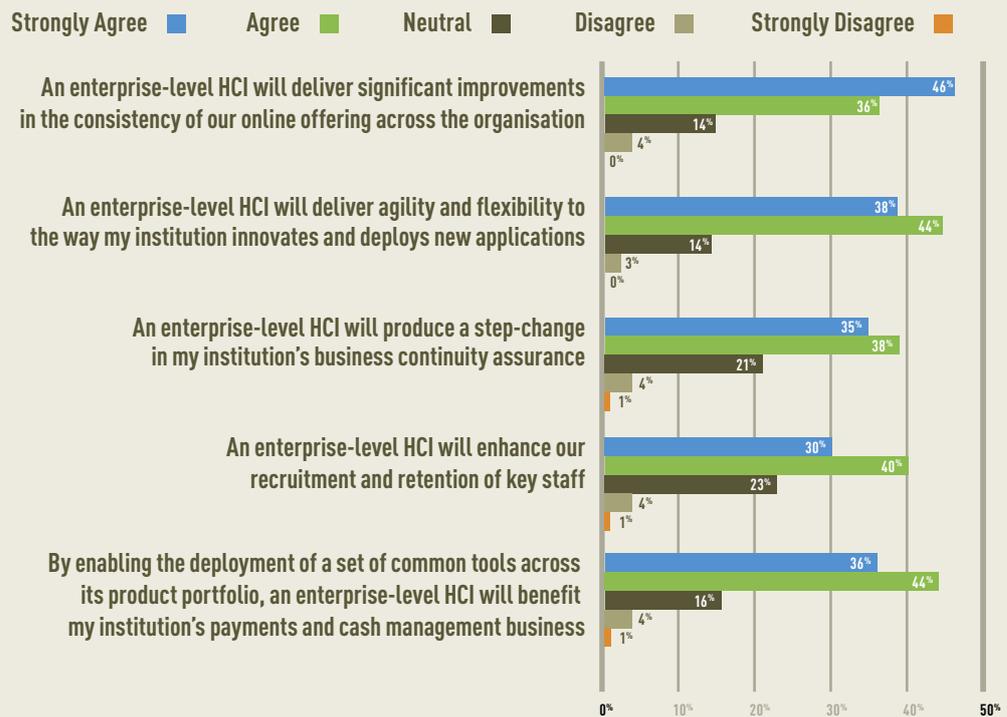
There is a huge endorsement of adopting hybrid cloud at the enterprise level as many IT executives look for consistency in their strategy. However, many complexities remain, as institutions look to navigate legacy and cultural issues in order to be successful.



03

CHALLENGES AND OPPORTUNITIES WITH IMPLEMENTATION OF ENTERPRISE-LEVEL HCI

LOOKING AT THE CHALLENGES / OPPORTUNITIES ASSOCIATED WITH THE DEVELOPMENT OF AN ENTERPRISE-LEVEL HCI, TO WHAT EXTENT DOES MY FI AGREE WITH THE FOLLOWING:



For many financial institutions moving to a hybrid cloud solution isn't a matter of why or when but simply how best to realise the transformational value it brings.

The results of the survey question can be summarised in two parts. The first is cloud's contribution to keeping pace with the increasingly digital transformation of banks and financial institutions, and the second is support of complex IT and business continuity requirements.



In today's constantly changing world, to keep pace with new trends and maintain competitive advantage, financial institutions need to be creative and agile. Not just in their business planning but also in their accelerated use of technology and cloud solutions.

The survey highlights respondents' view of hybrid cloud's flexibility and ability to scale the delivery of online services and innovative new services and applications, not least in the area of the payments and cash management business. Hybrid clouds' flexibility is seen as a huge advantage enabling businesses to compete in the disruptive industry of global banking services, responding to fierce competition from incumbent and new companies.

Hybrid cloud is at the forefront of the modernisation of the industry and the enterprise solution supports the pace and scale at which financial institutions choose to compete with measurable results as the responses confirm.

And as the industry moves to even higher levels of adoption, the focus on IT resilience and business continuity heightens. The strong opinion is that cloud is an essential contribution to intelligent business continuity delivery.



04

PRIORITISATION OF OBJECTIVES OF HCI IMPLEMENTATIONS

IN CONSIDERING YOUR FI'S IMPLEMENTATION, OR PLANNED IMPLEMENTATION, OF A HCI, PLEASE RANK THE OPTIONS BELOW

Ranked in order of priority, according to surveyed

- #1 Reduced operating / support costs
- #2 Increased scalability of functionality / services
- #3 Gains in agility, including new, innovative products and services from third-parties, from the use of a cloud-based environment
- #4 Enables 'portability' of key business applications (i.e. a cloud-agnostic approach with any app available on any cloud)
- #5 Enables regulatory compliance with business continuity obligations (i.e. simplified pull-back from the cloud to on-premises service provision)

The survey asks for an overall ranking of the options for implementing a hybrid solution. As many more businesses move to the cloud, its versatility in the use of systems, applications, and services in financial services is reflected in the result.

All responses represent the advantages of cloud in managing cost control, creating agility and scalability, meeting compliance requirements and driving innovation- further examples of the benefits of adopting an enterprise led hybrid cloud solution.



05

BENEFITS FROM USE OF OPEN SOURCE TECHNOLOGIES

IN CONSIDERING MY FI'S VIEW OF THE BENEFITS OF OPEN SOURCE TECHNOLOGIES, PLEASE PRIORITISE THE OPTIONS BELOW

Ranked in order of priority, according to surveyed

- #1** Open Source collaborative projects lead to higher-quality software
- #2** Reduced cost of ownership vs proprietary software options
- #3** No lock-in to or dependency on, specific vendors
- #4** Enterprise open-source software provides a secure and fast time to market for new offerings

From a slow start five plus years ago, banks and financial institutions' use of open source has now become mainstream. The responses to this survey question, identify and prioritise the advantages banks seek to gain from this strategic approach whereby source code is developed on a community basis, then made freely available.

The favoured benefit is that open source leads to better quality software with 67% agreeing.

However, the option to avoid locking-in to specific vendors, with the associated dependency risks e.g. vendors keeping-up with regulatory changes, is generally not considered a benefit with the "3 - 4" (of lower importance) 55% ranking highlighting this.



The position reverses when looking at the cost of ownership (annual license fees) with the strongest “2” ranking throughout the survey question of 38%. This is clearly a strongly considered advantage of using open source.

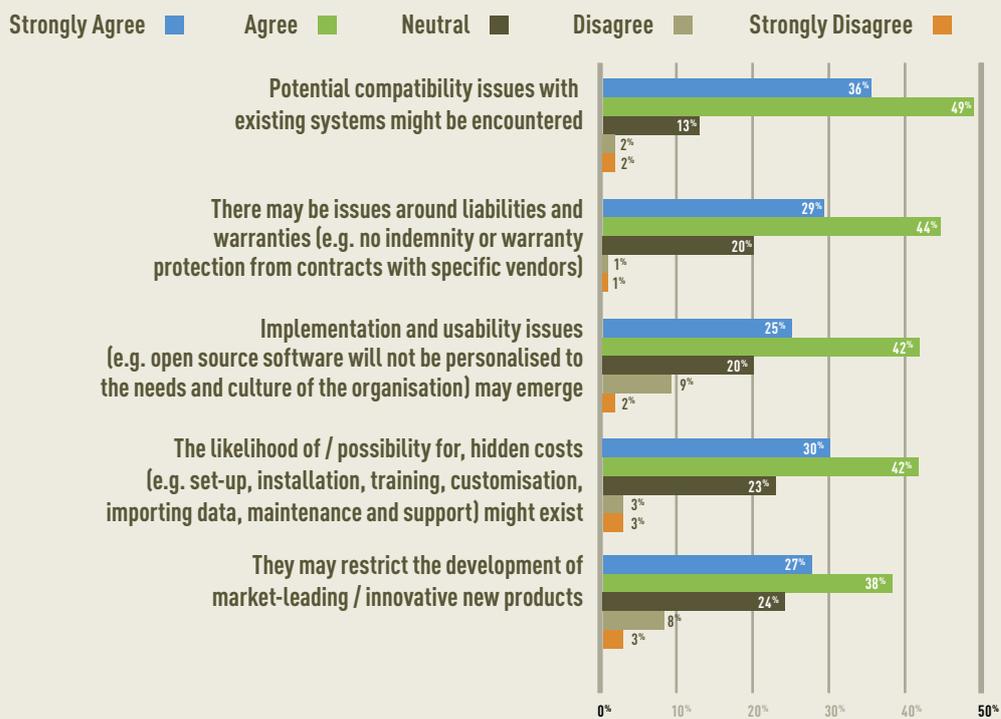
There are plenty of reasons why open source adoption will grow as a business model aligned to the digital transformation of the industry, but there is a need to extol the benefits it brings. The use of open source is quite different from traditional software businesses and the compelling case of delivering new scalable, customisable go-to-market offerings faster and more efficiently is an attraction to 30% of respondents, especially as open ecosystems grow. The survey highlights the hesitancy of some but the rapidly changing transformation of IT infrastructure, use of cloud and need to compete drives greater adoption. Leveraging open source technology is the future.



06

POTENTIAL ISSUES WITH DEPLOYMENT OF OPEN SOURCE TECHNOLOGIES

TO WHAT EXTENT DOES MY FI AGREE WITH THE FOLLOWING STATEMENTS ABOUT THE USE OF OPEN SOURCE TECHNOLOGIES:



It is perhaps important to emphasise that this question was focused on the relative significance of a number of potential issues in using open source, rather than any form of evaluation between these issues and the potential benefits of the approach.

The overall steer of responses is towards strong support (agreement) of all statements, hence the question identifies the key issues. There is a higher percentage of “agree” and little dissent. Understanding these potential issues with the use of open source, the key issue for the market is how the possible negative outcomes can be mitigated in order to derive the benefits of open source as identified in the previous question.



How can concerns around the compatibility, useability and hidden costs associated with the use of open source be addressed?

There are a number of risk mitigants available. These include working with specialist partners experienced in ‘hardening’ open source solutions for use within bank IT infrastructures, in certifying code, assuring successful installation and providing training.



07

FUNCTIONALITY OBJECTIVES OF HCI IMPLEMENTATION

IN CONSIDERING THE FUNCTIONALITY / APPLICATIONS YOUR FI IS SEEKING FROM A HCI, PLEASE RANK THE OPTIONS BELOW

Ranked in order of priority, according to surveyed

- #1 Front-end customer interface
- #2 Back-office core banking functionality
- #3 New sales and marketing capabilities
- #4 New revenue streams
- #5 Enhanced fraud and risk management
- #6 New client acquisition capabilities
- #7 Improvements in existing product offerings (e.g. payments)

The two stand out responses to this question focused on improved customer experience through enhanced front-end interfaces and back-office core banking infrastructure, with overall scores of 5.1 and 4.9 respectively. Indeed, it is likely that improvements in one of these areas will act as a catalyst for further improvements in the other.



There is less stated benefit when addressing opportunities to grow new business and improve current product offerings. Questionably, the focus is on “front-end” improvements to drive gains from existing customers and less so from new acquisitions- a trend expressed by several banks’ conversations of late.

Combining the first two rankings (“1-2”) to the first two statements results in a combined percentage of 50%. In comparison, by the same measure, the other statements dip way below this figure. The market seems focused on using hybrid cloud to improve the experience of its existing customer base, rather than growing its market share and revenues, improving its fraud control and risk management.

The use of data to personalise and hone sales and marketing activity, providing a connected or joined-up way of dealing with customers, is an important objective to banks. This can be provided by better integrating front and back-end systems and new capabilities to extract the hidden gems of customer-specific information hidden deep within core systems. Such an approach is based on linking, and focusing, simultaneously, on the first three options of this survey question. Putting effort into just one of the options in isolation will not deliver the sales and marketing advantages sought from better data usage.



08

PRIORITISATION OF BENEFITS SOUGHT FROM HCI IMPLEMENTATION

IN CONSIDERING THE BENEFITS TO YOUR FI OF THE DEPLOYMENT OF HCI, PLEASE RANK THE OPTIONS BELOW

Ranked in order of priority, according to surveyed

- #1 Increased agility and innovation to launch new services
- #2 Improved scalability and control of infrastructure
- #3 Reduced capital expenditure and operating costs
- #4 Ability to manage multiple vendors and platforms
- #5 Improved business continuity management and control

The question focuses solely on the benefits of the hybrid cloud. The top two statements- increased agility and innovation with 70% favourable ratings and improved scalability and improved infrastructure with 62% support- emerge stronger in benefit.

The market clearly believes that the ability to launch new services based on the provision of greater agility and scope for innovation in an increasingly digitally led industry, supported by the need to manage infrastructure better, are strong attributes of cloud. However, the support shown here for hybrid cloud as a tool to launch new services, appears to contradict the responses given earlier to question four, in which a (counter-intuitive) view that hybrid cloud wasn't a key enabler for quickly bringing new products to market was supported.



This position is possibly a reflection of the fact that organisations are still coming to terms with the strategic opportunities offered by cloud.

Unsurprisingly given earlier responses, the focus (benefit) of hybrid cloud to reduce capital expenditure, manage multiple vendors and improve business continuity are less appealing options.



09 ABOUT

FINEXTRA

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