



GLOBAL BANKING

REACHING FOR THE CLOUD:

A PROPOSITION FOR LEADERS

CHAPTER 1: Banking Business Model Is
Undergoing Innovative Disruption

INTRODUCTION

Wipro has developed a thought leadership paper titled **Reaching for the Cloud: A Proposition for Leaders**, which highlights the key trends and challenges that banks face today, including, but not limited to, rapidly changing customer preferences, a highly competitive market landscape, and emergence of contemporary technologies; and how cloud adoption can help solve some of these challenges posed by a dynamic business world.

The paper is a three-chapter series: the first chapter highlights industry challenges and how cloud can be an enabler; the second establishes accelerator pillars that banks can integrate within their cloud transformation roadmap to become more resilient and realize benefits early on in their transition journey; and the final chapter provides a strategic direction to banks in order to become disrupters and digital institutions of the future.

The accelerators mentioned in this series have been derived from Wipro's experience with clients' transformation projects and are backed by our survey conducted on senior executives of banking organizations. This thought leadership paper will enable senior executives to evaluate their current cloud positioning and help them determine the appropriate approach to embark upon to become leaders and mitigate the potential threat of the industry getting commoditized.

Chapter 1 of the series **Reaching for the Cloud: A Proposition for Leaders** highlights that the incumbent/legacy banking model is set for an overhaul. It recognizes challenges such as constantly changing customer preferences, a highly competitive landscape, and emergence of contemporary technologies as catalysts necessitating organization-wide digital transformation.

To illustrate this point, while cloud adoption in banking has surged, the sector is still behind other industries and there is significant potential for banks to accelerate their cloud transformation journeys. Currently, **only 13%** of banks are considered cloud leaders, against the **cross-industry average of 19%, and 32% (highest) in the manufacturing sector**. Against this backdrop, with disruption taking center-stage, the potential of cloud to help banks solve imminent challenges to stay competitive is underscored in this chapter, which attempts to emphasize cloud transformation as a non-negotiable agenda for banking institutions.



The Banking Business Model Is Undergoing Innovative Disruption

The banking business model is undergoing a massive transformation, with traditional banking services getting commoditized and the pace of innovation generating disruption

The market environment for banks has changed immensely in the past decade, and the frequency of disruptive change (especially post COVID-19) in the banking industry has now increased to unprecedented levels, resulting in traditional banking products being commoditized. This trend is compelling banks to introduce innovative products and services to the market, while being extremely cost efficient and agile.

Responding to market changes, most banks are undertaking business and technology transformation to alter their business models and are dealing with the increasing demand to move toward digital services while ensuring operational efficiency and seamless customer experience.

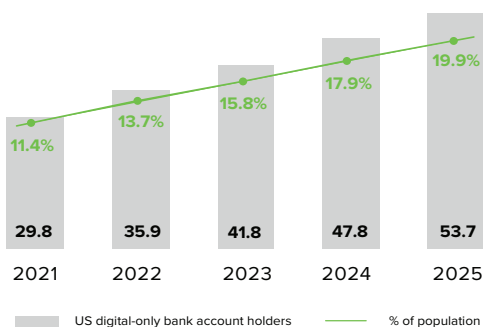
Moreover, there is heightened need for digital banking services to be efficient enough to handle large volumes of customers and customer data. These services can no longer be focused on a specific demographic or product. A gradual shift of core processes to the cloud is one of the ways forward to have scalable, efficient, and agile business models. The ability to serve faster-to-market demands and prompt innovation will likely be the key determiners of success for financial service providers as they look to thrive in an environment of changing market dynamics.

The most prominent trends and challenges that are altering the banking landscape and driving banks to take transformative steps include the increasing demand for ubiquitous banking, new competition outperforming traditional service providers, and radical technological discoveries.

Trends and challenges that are altering the banking landscape today

Rapidly changing customer preference for digital and ubiquitous banking services

FIGURE 1: NUMBER OF DIGITAL-ONLY BANKING CUSTOMERS IS GROWING SIGNIFICANTLY...



Consumer preference for banking services has been irrevocably altered on the back of the digital revolution. Digital banking models are no more complimentary and no longer confined to progressive economies. Being demanded by most customers across communities, they are now the primary element in banking services. Further, 82% of US banking customers access their accounts through digital channels (Source: PYMNTS.com), with smartphones being the most preferred medium.

Digital is the buzzword in banking, with an increasing number of customers, across demographics, demanding omnichannel experiences more

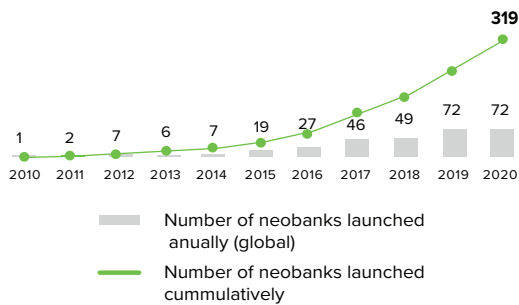
inclined toward digital interfaces. This is a result of the growing number of tech-savvy customers insisting on innovation, speed, and ubiquity.

Customers are now moving from digital banking to ‘digital-only’ banking models. For instance, in the US, the number of **digital-only banking customers are expected to grow at a CAGR of 16% over 2021–2025 to reach 53.7 million (~20% of the total population)**. Moreover, the pandemic has catalyzed the digital-only trend and has driven banks to swiftly transform to meet changing customer preferences.

Competition is expanding beyond traditional firms, with proliferation of market disruptors that are providing innovative products and services

Non-banking firms are rapidly entering the financial services space, threatening the market position of incumbents. The market share of unsecured lending by non-banking firms has more than doubled since 2015 to over 50% (Source: FDIC). This growth is largely attributed to product simplification, aggressive pricing, robust digital interfaces, agile customer services, and personalization. Innovative offerings and tech-oriented expectations of millennials and Gen Z are exacerbating the impact of the changing market landscape on incumbent financial institutions.

FIGURE 2: PUSHING THE PROLIFERATION OF NEOBANKS



Source: Exton Research 2021

Since 2016, the industry has witnessed a proliferation of neobanks—there are 256 live neobanks currently operating globally, with many more likely to launch soon. Most of these are built on cloud-native core banking systems—a key feature that has helped them achieve record levels of efficiency, security, and go-to-market agility. This proves that a data-driven and platform-based approach can help deliver financial services commensurate to the needs of an ever-growing, tech-literate customer base.

Emergence of contemporary technologies to help banks operate efficiently and innovatively

Emergence of contemporary technologies (AI/ML, Cloud, RPA, Blockchain, and others) has acted as an important catalyst in driving momentous changes in traditional banking models. Technological advancement has been instrumental in serving the progressive demands of consumers at competitive prices while also ensuring operational agility. Moreover, technological innovations have led to stiff competition in banking, impacting incumbents’ revenue-generating products and delivery models. It cannot be emphasized enough that the key to future relevance is building a ‘smart-bank’ that is powered by innovative technologies. Use cases of these technologies are evolving as more research is being conducted. Neobanks and FinTechs have been at the forefront vis-à-vis adoption of these revolutionary technologies, whereas incumbents are facing challenges in adoption due to the high investments involved, their legacy and fragmented systems, and the scale of operations.

Cloud adoption can solve banks' challenges

Cloud has emerged as a key technology element that can solve many challenges for banks and help them stay competitive. However, the pace of cloud adoption needs to be accelerated for banks.

Lately, the cloud has become a critical facet of business transformation and has attracted significant interest across global organizations, as it provides capabilities that help build institutions that are not only future-ready, but also future-proof—a need whose importance has been driven home by the COVID-19 pandemic. Following this trend, the banking industry has also witnessed a rise in cloud adoption. However, an accelerated effort is needed in this direction as **only 13% of banks are considered cloud leaders, against the cross-industry average of 19%, and 32% (highest) in the manufacturing sector** (Source: Wipro FullStride Cloud Services).

Cloud use cases in the banking sector have evolved from elementary data storage and communication to cloud-native infrastructure, software, and processes. Many large banks are actively considering designing a cloud-native core banking system to change the way they operate. As a result, cloud is one of the biggest drivers of increased IT expenditure across banks of all sizes. In fact, banks globally have budgeted higher spend on public cloud through 2024—banks expect the investment in public cloud to grow 10.9% annually, as against the annual overall bank IT spend growth of 5.9% (Source: IDC).

Wipro FullStride Cloud Survey found that banks are expected to **migrate 53% of their application workload** to the public cloud by 2023, from a 38% application workload currently on the cloud. Moreover, cloud leaders expect this migration to accelerate even further, with 75% of application workload migrating to public cloud over

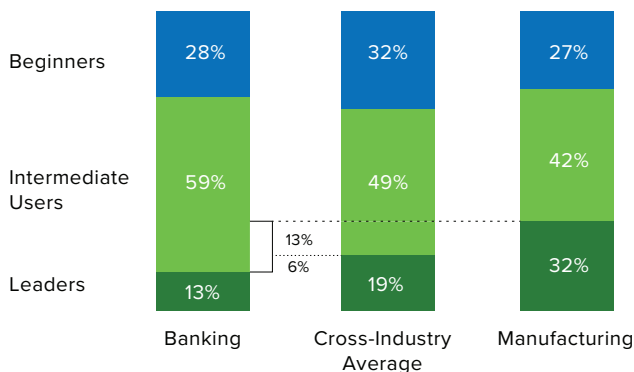
the period. Significant though it may seem, this shift is still conservative when compared to the success FinTechs and neobanks have achieved due to being built on 100% cloud-native systems.

The rapid shift in operating environment, led by changing customer preferences, a competitive landscape, and emergence of contemporary technologies, has highlighted the growing importance of cloud transformation and suggests that this is no longer a 'nice to have' but a non-negotiable agenda.

Banks have made significant investments in technology, especially cloud transformation, in the past decade, and are at different stages in their respective journeys. However, the unrelenting pace of change in the operating environment of the banking sector is driving large banks to fast track this journey to attain a competitive advantage. Banks' leadership must critically evaluate their cloud journey and embed accelerators in their transformation plan to realize benefits early in the transformation process.

FIGURE 3: MATURITY CATEGORY PER CLOUD ADOPTION

“Banks need to accelerate to advance from being an intermediate cloud user to a leader, as the sector lags behind the cross-industry average”



CONCLUSION

Cloud transformation has been clearly positioned as a must-have tech investment for banks in this chapter. As a clear and obvious path forward, Chapter 2 of this series investigates the role cloud accelerators can play to help banks become more resilient and achieve benefits early on in their cloud transformation journey.

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METHODOLOGY

This report captures insights derived from a survey conducted for Wipro in June and July 2021 by ThoughtLab to analyze current and future patterns of enterprise-level cloud adoption. Overall count of 1,300 respondents across industries included 110 bank executives at organizations with annual revenue from \$500 million to \$20 billion or more. They are located in six countries (Australia, France, Germany, Switzerland, UK and US). All respondents are responsible for or play a key role in their organization's cloud computing strategy and implementation. Additional insights come from responses to open-ended questions.

To calculate cloud maturity, we analyzed three criteria: (1) a company's progress implementing cloud-based data centers, migrating and modernizing core processes, and adopting cloud-native applications; (2) the percentage of total applications operating in the cloud; and (3) the number of advanced technologies used in conjunction with the cloud. Based on those criteria, we classified the top 13% of respondents as cloud "leaders," the middle 59% as "intermediate users," and the other 28% as "beginners."

Please visit wipro.com/cloud to learn more about Wipro FullStride Cloud Services

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