



Finance: Going digital means taking a fresh look at your IT infrastructure

An IDC White Paper, Sponsored by Interxion



# INTRODUCTION

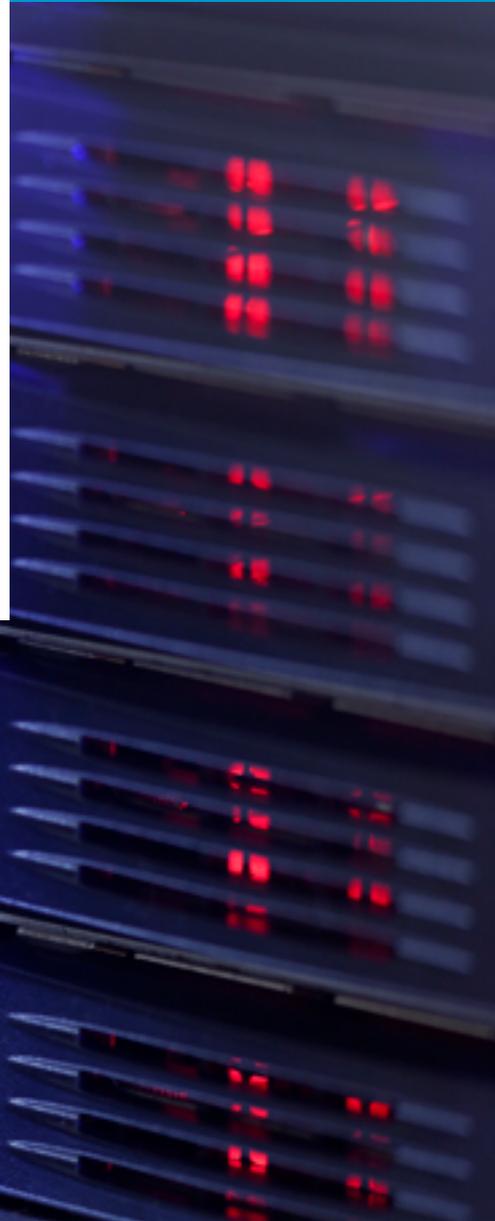
As digital transformation takes hold in the financial sector, companies are reassessing the approach to IT infrastructure to meet the growing need for agility and efficiency. Companies in the financial sector use third-party colocation datacenters to secure and optimize a hybrid cloud infrastructure which is essential to ensure cost-efficient operations and support the transformation needed to become a true digital enterprise.

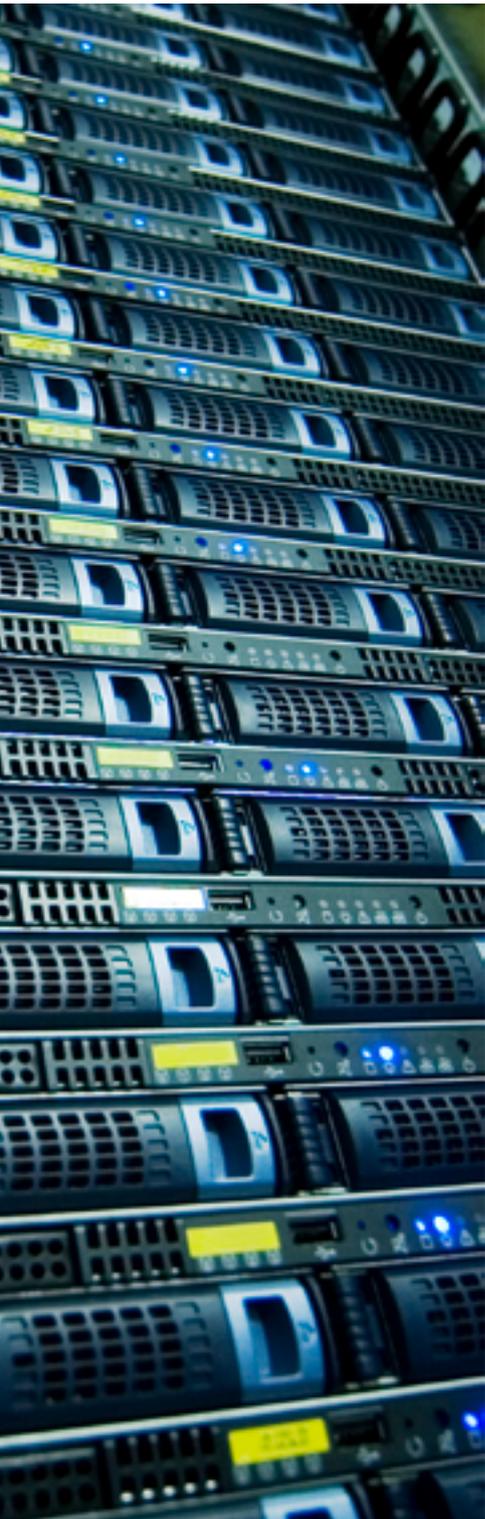
The financial sector has undergone significant changes over the past decade. Fueled by the financial crisis, the industry has been consolidated and the regulatory environment has grown harsher. Even more significantly, technological development has driven a transformation in the industry that is still ongoing. In order to succeed — or just survive — banks and insurance companies need to innovate and change.

Companies in the sector recognize this. Eight out of 10 decision makers acknowledge that this is essential to become a true digital enterprise, with the majority even believing that this transformation must happen within two years.

The performance and agility of the IT infrastructure is essential to support digital transformation initiatives. The need for an efficient and agile infrastructure shifts infrastructure spending away from on-premise to a hybrid environment that also leverages public cloud services and third-party colocation datacenters.

Cloud is preferred due to both cost savings and to support digital transformation. The primary reasons for using third-party colocation datacenters are to secure and optimize cloud services — for example, through direct cloud connections — and to be closer to the customers to enhance customer experiences. Significant and prevalent concerns about security and reliability inhibit adoption and result in the transition happening at a much slower pace than organizations would prefer.



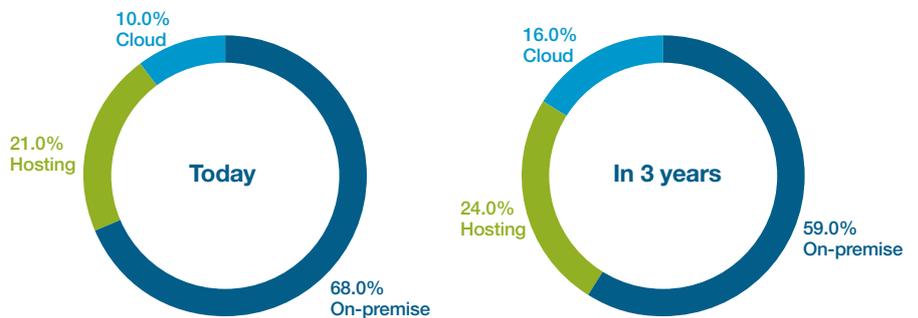


# COMPANIES EMBRACE HYBRID CLOUD AND THIRD-PARTY COLOCATION DATACENTER SERVICES

Financial organizations in general host the bulk of their infrastructure inside their own enterprise datacenter. More than two-thirds of infrastructure spending is allocated to on-premise equipment, tools, and maintenance; 21% is spent on hosted and co-located offerings — that is, in third-party datacenters where the facilities are shared with other customers but the actual IT assets are dedicated to each client; and the remaining 10% is spent on public cloud services. There are, however, tremendous differences in how companies split the spending between deployment locations. Several organizations have everything onsite, but there are also examples of organizations that run only on a public cloud platform — such as fintech company Auka, which runs 100% on Google’s cloud platform.

Looking three years ahead, we will see a significant change in the average spending distribution. On-premise will take a much smaller share as spending on cloud and hosting significantly increases.

## Infrastructure deployment distribution in finance



Source IDC, 2017 (N=147)



The shift in spending distribution is not just due to most companies gradually moving more applications and workloads off-premise, but is a result of a larger change in the approach to infrastructure.

Companies are not just shifting the IT environment off-premise or into the cloud, but are adopting a multideployment strategy that leverages the advantages of each deployment model, and are searching for the right mix of on-premise, hosting, and cloud in a hybrid IT environment.

## Financial companies in front

Financial companies are changing the way they use and combine different infrastructure deployment and sourcing options. In the coming three years, 60% will change the spending split between on-premise, hosting, and public cloud — shifting spending away from on-premise toward both hosting and cloud:

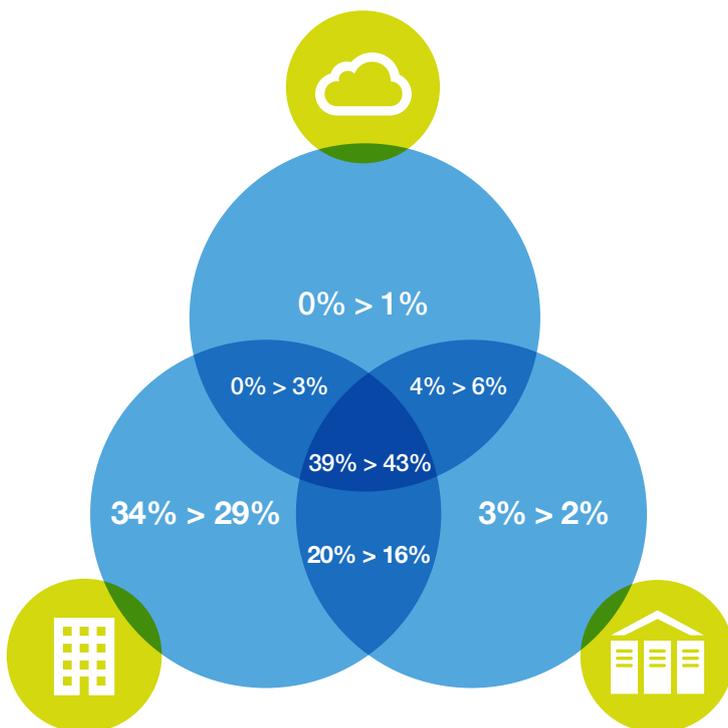
- A third of organizations will increase their relative spending on hosted infrastructure and a third will increase spending on cloud.
- Every other organization will decrease its relative spending on on-premise infrastructure, while 1 in 10 will insource and spend relatively more on on-premise.

The two main trends are the shift toward cloud and the increase in the number of models used:

- The share of organizations using cloud will increase from 43% to 53%.
- The share of those that rely on on-premise infrastructure only will shrink from 34% to 29%, while the share using all three models will increase from 39% to 43%.
- The share using hosted services will remain around two-thirds, but the share combining hosting with cloud will rise from 43% to 49%.



### Infrastructure deployment models used in finance today and in three years



advantage agility better  
 business capabilities change  
 channel cloud competitive  
 compliance cost customer  
 data department digital easy  
 efficiency financial flexibility  
 future improve increase  
 insured integration  
 keep looking maintenance  
 market networking operation  
 oriented pace pooling private  
 problems processes  
 reduced reduction resources  
 safety sales security servers  
 service solve specific

## Efficiency and Flexibility Drive Cloud Adoption Despite Security Concerns

The move toward cloud and hosting is driven by the need for operational efficiency gains and the need to become more flexible. In most cases, it is a combination of the two — organizations are changing their deployment and sourcing mix because they need to be more flexible to support the business while still being cost efficient.

When choosing between models for individual applications and workloads, companies weigh cost and complexity of migration against security and availability requirements as well as flexibility/scalability needs.

### Financial organizations' concerns about cloud (share of respondents)



Source: IDC, 2017 (N = 147)

## Security, Privacy, and Reliability Inhibit Cloud Adoption

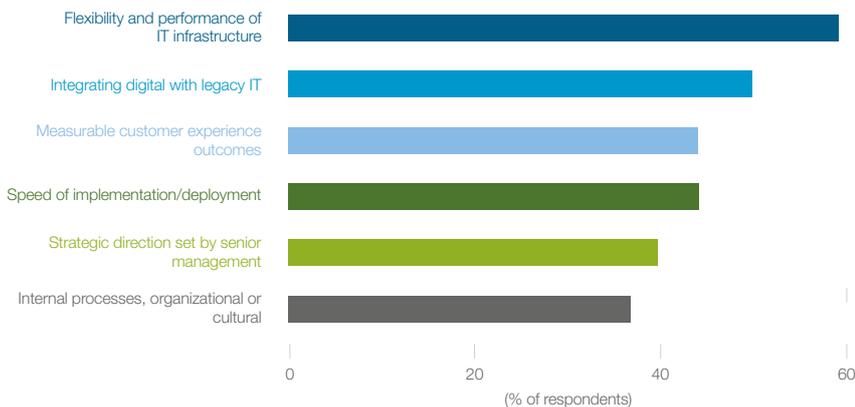
The main concerns related to cloud adoption are security, privacy, and reliability. However, these concerns are not just related to the use of external multitenant infrastructure, but result from the new work processes and data flows enabled by the cloud services. For example, cloud is often used as a means to allow mobile access to a system, and it is the mobile access (including the transport and storage of data on mobile networks and devices) that is the actual security challenge.

## Customer Proximity and Security Drive Third-Party Colocation Datacenter Spending

In order to alleviate risk, companies — especially in the financial sector — refrain from using standard internet connections to the cloud services. 95% of financial organizations connect to cloud services using a direct cloud connection provided by either a network or datacenter provider — or by the cloud providers.

Another way to alleviate risk and enhance the cloud advantages is by leveraging third-party colocation datacenters. The datacenters typically provide the direct cloud connections to most cloud providers that companies demand. Leveraging multiple datacenter locations and cloud services moves the applications closer to the customers to ensure performance and avoid latency issues in the network edge and thereby improve the customer experience. Third-party datacenters are also used to run workloads and applications that for legacy or compliance reasons cannot be migrated to public cloud in a hybrid environment.

### Financial organizations' reasons for using third-party datacenters (share of respondents)



Source: IDC, 2017 (N = 147)

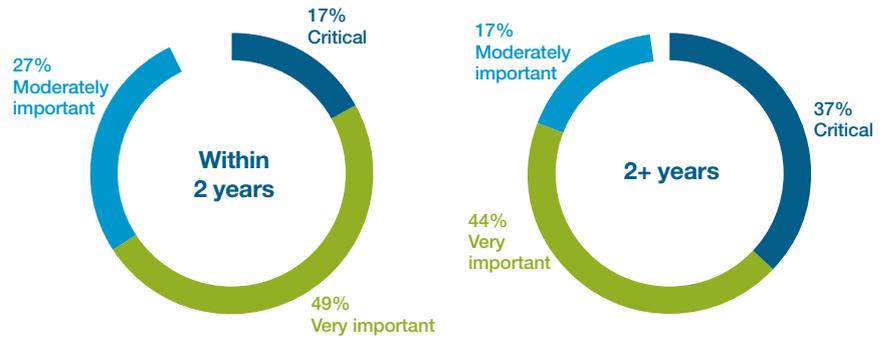




## Services enabling digital transformation

The reason banks and insurance companies embrace cloud and datacenter services is because there is a ubiquitous focus on digital transformation — leveraging new technologies to optimize business and IT efficiency and remain relevant to customers in a world that is changing quicker than ever.

### Financial organizations' perception of the importance of becoming a digital enterprise.



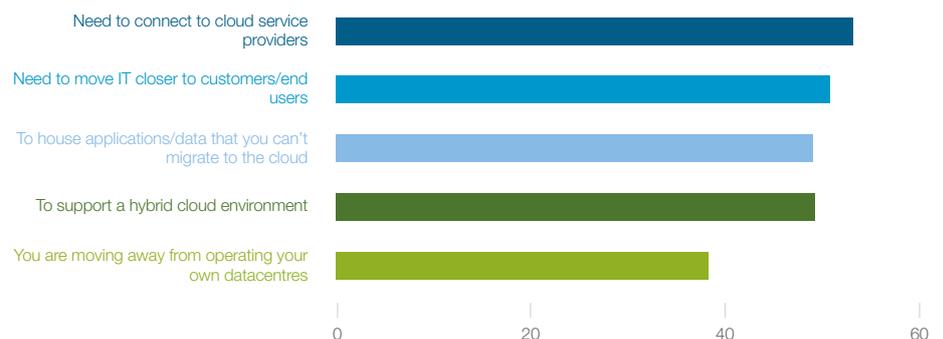
Source: IDC, 2017 (N = 147)

Generally, companies understand the need to become digital enterprises — and most acknowledge the urgency in becoming one.

Virtually all decision makers find that it is at least moderately important to become a digital enterprise, while two-thirds believe it is critical or very important and needs to happen within two years.

While digital transformation is very much about transforming the business — developing new business models and services and altering business processes — IT infrastructure transformation is the single most important prerequisite for successful digital transformation. It is paramount that the IT infrastructure is flexible, performs well and integrates with legacy IT — requirements that are only obtainable with a hybrid cloud environment.

### Digital transformation drivers in financial organizations



Source: IDC, 2017 (N = 147)

# The Rapid Transformation of the Financial Industry

The financial sector has undergone significant changes in recent years. From 2005 to 2015 the number of banking companies declined by 20% and the number of local offices fell by 30%.

Today, a number of consumer banks do not have any physical locations and rely on web and mobile for all customer interactions, while in insurance we are also seeing online-only companies emerge. These companies are typically discount banks benefiting from not having expensive high-street offices and customerfacing employees. However, they do not excel in customer experience and need to transform just like the more traditional organizations.

While the financial crisis, the sustained low interest rates, and the overall global uncertainty have undoubtedly put pressure on the industry and accelerated change, technological development is the true driver and enabler of transformation.

Nordic consumers are among the most digital in the world in terms of payment and banking activities. They use a credit or debit card three times more often than the average European, while checks were recently discontinued as a viable payment form in Denmark.

Similarly, online and mobile banking and payments are extremely prevalent and by far the most common way to conduct everyday banking business.

It is in online and mobile transactions that we have seen the most innovative solutions in recent years. Nordic examples include Mobile Pay, Trustly (which vastly simplifies direct bank transfers for online purchases), and Klarna (which allows customers to pay for online purchases via traditional invoices and installments).

We also see international solutions such as PayPal and various electronic wallets from the likes of Apple and Google already available or likely to become available in the Nordics. An interesting aspect here is that some of these players are not actually in the market for payments to make money directly but to learn more about the users (for advertising purposes, for example).

Share of Nordic consumers using online and mobile banking



Online



Mobile

Source: IDC, New Media Market Model





Companies that do not seize the emerging opportunities to develop new services and engage customers differently are risking their very existence. While regulations and customer inertia may reduce the risk of being disrupted or “Ubered” in the financial industry, the launch of new services and the arrival of new competitors will have a significant impact on existing companies’ businesses. Considering the massive and fast-growing investments in fintech globally, it is naive to think that new disruptive solutions will not appear.

The near future will also see key breakthroughs in innovation — for example, fully automated digital lending products and services related to crowdfunding, crowdlending, micro payments, and micro loans. Other technologies that will have a significant impact are blockchain and virtual currencies.

It is also important to understand the environment in which digital transformation must happen. The U.K.’s decision to leave the European Union will bring uncertainty to financial services for years to come as London is one of the most important financial centres in the world.

## GDPR will require significant resources

Financial organizations also need to meet and adjust to compliance requirements. This year, GDPR compliance in particular will require significant resources even if it is not specific to the finance sector. Even organizations that meet all existing regulations will probably need to implement new solutions and processes to comply with the new requirements — specifically related to identifying and classifying data/ data flows and employee education and enforcement.

While the financial sector has already changed remarkably due to technological development, the transformation is by no means done. The only way for companies to ensure operational efficiency and customer centricity, and implement a true omni-channel strategy, is to leverage an agile IT infrastructure that combines the advantages of different deployment models including cloud and third-party colocation datacenter services.



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## About Interxion

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