

Banking and market disruptions don't mix well. Yet after the negative impacts from disruptive events since 2007, financial institutions are getting better at leveraging technology to help navigate these storms.

Banking Transformation Has Improved Resilience to Market Disruptions

April 2023

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Introduction

Here we go again, with market disruptions in 2023 continuing from those begun in 2020. In 2020, it was the pandemic; in 2023, it's inflation. Both years saw recession and bank failures.

It's getting to be a common theme in the banking industry: As soon as things begin to look up, and institutions can go back to the business of innovation, another disruption comes along and threatens to upset what is arguably the most important aspect of day-to-day life — financial services.

Most recently, the worldwide pandemic in 2020 forced several changes in banking that were poised to be on the edge of catastrophic. Branches closed and the contact center — having risen to importance because of branch closures — had to be operated in remote environments with agents working from home. Just as the world and industry began recovery in 2021 and 2022, continuing supply chain challenges helped drive inflation, further affecting the banking industry.

In 2023, the fears now are of recession and potentially more bank failures as a few highly publicized institutions shut their doors and/or had to be rescued. According to IDC's January 2023 *Future Enterprise Resiliency and Spending Survey, Wave 1*, 68% of financial institutions believe there will be a recession in 2023; of that group, 31% believe that the recession is already happening and 53% think the recession will happen in the first half of 2023.

Yet, despite the turmoil over the past four years, IDC argues that the digital transformation initiatives adopted by banks worldwide in the years preceding 2020 have increased the ability of the institutions not only to weather the storms of disruption but also to develop and execute on strategic paths forward to continue to improve customer experiences, scalability, resiliency, security, and innovation. Digital transformation has given the banking industry an agility that enables faster and smarter responses to disruption, allowing institutions to continue to invest in the technologies needed to navigate ever-changing markets while continuing to evolve into scalable digital businesses.

AT A GLANCE

KEY STATS

- » Despite market turmoil in 2023, IDC currently estimates that IT spend in banking worldwide will grow at 8.8% through 2026. This growth rate is higher than those in preceding years.
- » Spending in areas such as cloud, AI, BDA, and security will grow at higher rates than the overall IT spend.

WHAT'S IMPORTANT

Conversations with banking technology executives point to a continued commitment to transform the business' technology platforms. Yet there will be a shift in investment priorities and reviews of risk practices and partnerships because of increased focus on third-party risk management.

Factors in Estimating IT Spend

IDC tracks technology spending for the banking industry globally. IT spend data crosses geographic boundaries, institutional sizes, and business and technology functionalities. The IDC Worldwide Black Book, from which the industry spending guides are derived, covers 9 regions, 89 countries, and 24 technologies. Each industry spending guide, including the spending guide for banking, is built with the participation of regional analysts from industry and technology domains. This ensures we capture local trends and insights, accurately forecasting the growth and magnitude of a given market. These spend estimates are continuously reviewed and validated, with growth estimates revised when appropriate.

IDC considers a multitude of macroeconomic factors when forecasting IT spend, including economy, inflation, geopolitical situations, business confidence, corporate profits, energy, stock markets, interest rates, exchange rates, and other local and global events such as COVID. Another significant forecasting input is the breadth and depth of surveys across IDC of technology buyers and suppliers on current and future IT spend. Given the number of variables IDC considers in forecasting banking IT spend, IDC's IT spend estimates are relatively hardened against localized and unique events such as the few bank failures of late. Additionally, given the sheer number of financial institutions across the globe, coupled with IDC's belief in the 80/20 rule, where 20% of the institutions control 80% of the total IT spend, it is IDC's view that the few recent bank failures do not represent systemic failures in the industry.

Therefore, despite disruptions, 58% of financial institutions said that these events had no impact on their IT budgets or that they were planning to increase their IT budgets in 2023. Only 12% of the institutions reported a reduction in overall IT budgets (source: IDC's *Future Enterprise Resiliency and Spending Survey, Wave 1*, January 2023; n = 119 financial institutions worldwide).

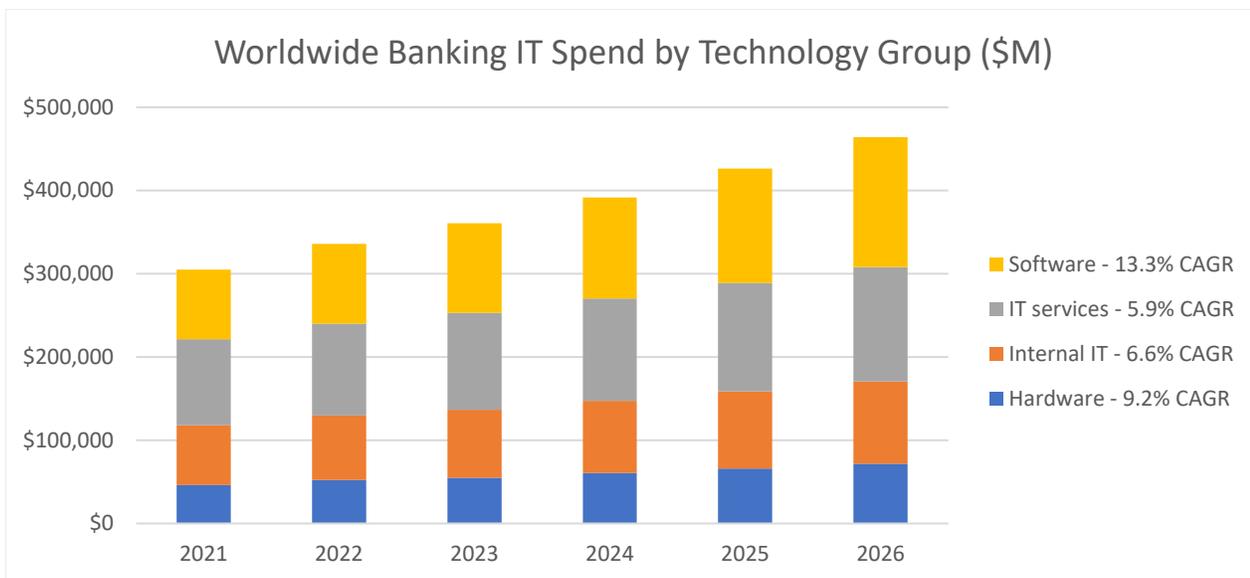
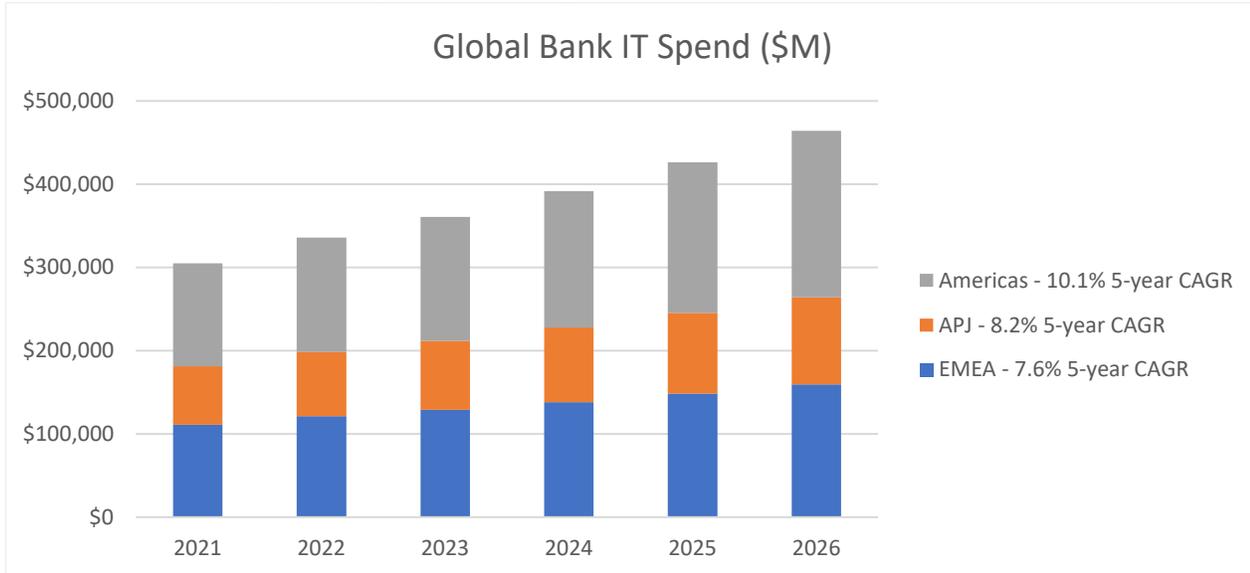
IT Spend Estimates, 2021–2026

While not completely impervious to the effects of market disruption, banks have been able to adapt to challenging environments through a combination of planning and agility in their technology plans enabled by advances in digital transformation. Particularly, the move to cloud and anything as a service (XaaS) has greatly enabled this ability to modernize legacy platforms as needed to respond to top market demands with far less difficulty than in the past.

Anecdotally, many CIOs have stated that their 2022 budgeting cycle included areas of growth in their technology spend for 2023. In some areas, the fact that institutions have been striving for transformation since before 2020, including the prospect of moving their critical core platforms to cloud, leads IDC to believe that transformative projects that have been delayed due to market disruptions are under pressure now to get started and the growth of these projects will accelerate as banks become more comfortable with the market outlook.

With this in mind, IDC estimates that worldwide IT spending in the banking industry will continue to grow at 8.8% annually through 2026 (see Figure 1).

FIGURE 1: **Global Spending on IT Among Banks**



Source: IDC's Worldwide Banking IT Spending Guide V1 2023, March 2023

Significantly, software spend is growing faster than hardware, services, and internal spend globally. This is indicative of an industry investing in the modernization of business platforms worldwide. Growth will be fairly even among all tier sizes, indicating that banks will have abilities to respond to market conditions regardless of size.

Of the 19 industries IDC currently tracks, banking represents the largest vertical in spending on AI, big data and analytics (BDA), and security and is among the top 3 industries in cloud spending (see Table 1). Indeed, IDC expects growth in the banking industry for these four critical technology accelerators to outpace the average through our 2021–2026 forecast period. In all cases except cloud, growth in software spend outpaces growth in hardware and services spend in each technology category. In cloud, growth in software spend is a close second to growth in infrastructure spend.

TABLE 1: *Top Spending Areas for Banks*

	AI	Big Data and Analytics	Cloud	Security
Banking 2021–2026 CAGR	27.6%	18.4%	15.0%	13.0%
19 industries 2021–2026 CAGR	27.0%	16.1%	14.0%	11.9%
Banking software 2021–2026 CAGR	31.0%	21.9%	13.7%	15.6%
Banking rank by \$ size out of 19 industries tracked by IDC	1	1	3	1

Sources: IDC's Worldwide Artificial Intelligence Spending Guide, March (V1 2023); IDC's Worldwide Big Data and Analytics Spending Guide, March (V1 2023); IDC's Worldwide Software and Public Cloud Services Spending Guide, January (V1 2023); IDC's Worldwide Security Spending Guide, February (V1 2023)

Considerations

As much as IT spend will continue to grow at a healthy pace, IDC believes that four strategies will emerge as banks adapt to challenging market conditions:

- » **Changes in project priorities.** Depending on the individual bank, institutions will focus on initiatives that:
 - **Defend and/or drive revenue.** This includes improvements in customer experience, marketing, and sales. It also includes business platforms such as origination systems that have a direct impact on income and customer loyalty.
 - **Make digital trust table stakes.** Areas such as risk management, compliance, security, and fraud detection will continue to attract investments as the bank's digital trust is most at stake during market or industry disruption.
 - **Increase efficiency.** IDC believes that spend on areas such as IT and business process automation will increase as a way for banks to get the most out of their investments in transformation as well as to replace manual processes (e.g., loan origination).

These priorities will, in turn, drive investments in AI/ML, automation, and analytics.

- » **Partner evaluation/reevaluation.** As a result of the failure at Silicon Valley Bank (SVB), banks will take a hard look at established and new technology partners with which they do business. Questions have arisen about sources of capital for smaller IT firms, including most fintechs, and about their day-to-day operational costs and long-term viability. IDC believes that in many cases, this focus is perhaps an overreaction to the disruption at SVB and does not apply to all fintech firms. Yet perception is reality in the case of technology investments in the industry. What is certain is that the morning after news broke about SVB, bank executives were undoubtedly going through their ecosystem portfolios and assessing the solvency risks with some of their partners. The side effect of this review will benefit the larger, more established players in the industry for which the solvency question is moot.

- » **Regulatory compliance.** The events at SVB, Signature Bank, First Republic Bank, and other banks point to risk management practices that would arguably not be considered best practice. Regardless of the reason(s) for the failure (asset liability mismatch, concentration risk, exposure to crypto assets, etc.), those situations may have been avoided had these firms invested in improved risk management technologies, especially in today's real-time world when a run on the bank can radically shift the bank's risk profile and balance sheet much more rapidly than in years past. Strategic investments in risk management technologies capable of running analysis both more frequently and more rapidly enable institutions to fully understand their risk management status in near real time and, more critically, give them the opportunity to pursue potential solutions. These technologies run the gambit from AI/ML-enabled analytics to cloud computing.
- » **Deposit shift.** While the consumer banking industry was not directly affected by the bank failures in 2023, small to medium-sized businesses and corporations are likely to consider moving their deposits and sources of credit to larger, more traditional banking institutions with mature risk management practices. This represents both a scaling challenge in what could be a significant increase in those portfolios for the bank and an opportunity to drive new sources of revenue in the expanded customer base, in turn driving the need to scale the IT infrastructure and modernize business platforms.

Conclusion

Every institution must consider its unique position in the market, its customers' needs, and its digital maturity when creating an investment plan during good and bad times. Yet some common principles seem to have emerged during the past decade in the banking industry.

Digital transformation, for institutions that invested in it, has enabled banks to be more agile and resilient during market disruptions. This, in turn, has allowed many institutions to continue to invest in technologies to scale their businesses, continue to innovate, and quickly respond to customer and market drivers.

While some banks may hold back on some larger projects that have indirect or little impact on revenue and efficiencies, overall IT spending seems to be holding strong despite the disruptions happening today. In fact, spending on strategic technologies such as cloud, AI, and security is growing faster than overall IT spend in banking worldwide.

The areas of risk management and compliance have come under scrutiny because of the market impacts from inflation, recession, and recent bank failures. This includes a review of market risks associated with assets held by the institution and the technologies needed to improve the speed and frequency of risk analysis, compliance, and response to changing market conditions.

Smaller and start-up technology firms in financial services, including neobanks and nontraditional banks, will come under more intense scrutiny as risk from third-party partnerships and third-party risk compliance jump to the top of the consideration list for banks for both existing partnerships and emerging relationships. These smaller firms will face more questioning from institutions, benefiting the larger, longer-tenured, and more regulatory-focused technology firms serving the industry.

Digital transformation has given the banking industry an agility that enables faster and smarter responses to disruption, allowing institutions to continue to invest in the technologies needed to navigate ever-changing markets while continuing to evolve into scalable digital businesses.

Banks worldwide seem to be heeding the advice of *The Hitchhiker's Guide to the Galaxy*: Don't panic. At the time of this writing, the disruptions seen so far can't yet be labeled "systemic," and many larger institutions are cautiously, but steadily, continuing to map out technology investment strategies that will help them scale and grow.

About the Analysts



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Jerry Silva is Vice President for IDC Financial Insights responsible for the global retail banking practice. Jerry's research focuses on technology trends and customer expectations and behaviors in retail banking worldwide. Jerry draws on 40 years' experience in the financial services industry to cover a variety of topics, from the back office to customer channels to governance in the technology shops at financial institutions. His work for both institutions and vendors gives Jerry a broad perspective in technology strategies.



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