

Navigating the digital shift:
Cloud, Data, and AI in Financial
Services industry

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Introduction

The advent of artificial intelligence (AI) has emerged as a pivotal enabler for financial services institutions (FSIs), facilitating a comprehensive suite of capabilities. From risk management and enhanced decision-making to combating fraud and elevating the customer experience, AI's ability to extract highly valuable data insights has proven instrumental in transforming operational efficiency.

As organisations embark on their digital transformation journeys, cloud computing emerges as the indispensable infrastructure that enables businesses to fully harness the potential of AI in the highly regulated financial services industry through enhanced data security, scalability, and comprehensive compliance support.

Despite acknowledging the numerous advantages of a successful cloud, data and AI strategy as integral components of their digital transformation, some organisations encounter challenges such as inadequate leadership and unforeseen expenses. Consequently, they find themselves in an experimental phase, hindering their access to the broader potential of the most recent technological advancements.

This survey delves into the challenges and opportunities FSIs encounter when implementing secure, resilient and scalable cloud environments and adopting emerging AI strategies to foster innovation and enhance business value.

Key findings

1 | Poor leadership

The data indicates that many firms are struggling with poor leadership, unexpected costs, and programme over-runs when rolling out the latest technology.

2 | Cutting costs

The majority of FSIs deem reducing operational costs to be the primary driver for their AI, data, and cloud initiatives. However, many do not currently have a sufficient key performance indicator in place to effectively measure how successful their approach is.

3 | Meeting technology

Firms are at different stages of their cloud, data, and AI initiatives. While most are reporting a positive level of maturity, a noteworthy number are still struggling to meet their targets.

4 | Localised experimentation

Most FSIs are departmentalising rather than taking an enterprise-wide approach to future-proofing their data infrastructure.

5 | Regulatory concerns

The study finds that FSIs are still finding their feet when it comes to balancing innovation and regulatory compliance, with many likely concerned about the risks associated with implementing advanced technology like AI.

Methodology

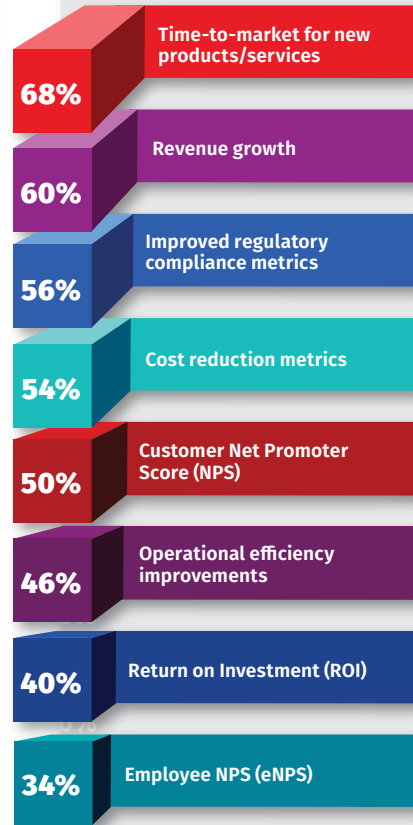
FStech and Rackspace Technology surveyed 102 financial services professionals from a range of financial institutions across the UK.

Primary drivers, performance indicators and challenges

What are the primary drivers of your organisation's cloud, data, and AI initiatives? *[select top three]*



What key performance indicators do you use to measure the success of your cloud, data, and AI initiatives? *[select all that apply]*



What are the biggest challenges you face in obtaining the best value from technology? *[select top three]*



Cost reduction is the primary driver for initiatives across AI, data, and cloud, selected by nearly three-quarters of FSIs surveyed, a figure almost 20 per cent higher than that of enhancing the customer experience. While the customer is still remains a key priority for more than half of respondents, the study reveals that firms are predominantly focused on saving money as part of their digital transformation. This suggests that an improved customer journey may be less financially justified compared to reducing operational costs, despite the potential for increased business in the long term.

The most significant challenges currently facing FSIs when attempting to maximise the value from technology are a lack of leadership sponsorship or turnover of leadership, and unexpected costs or programme over-runs, each chosen by 62 per cent of respondents. When leadership is absent or not fully committed, firms risk disrupting the continuity and stability of projects. This can lead to increased costs and an inability to meet planned schedules, which could be another driver for the prioritisation of cost-cutting measures when it comes to organisations' cloud, data, and AI initiatives.

Consistent and stable leadership ensures that projects, budgets,

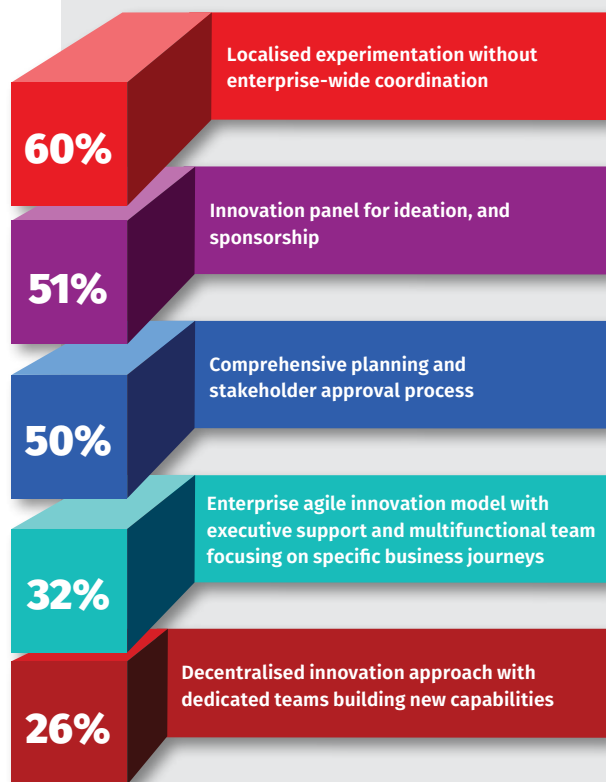
and effective deployment on track. This allows firms to allocate more resources to areas such as enhancing customer experience, catching up with market trends, improving business agility, and maintaining a competitive advantage.

While the results indicate that reducing operational costs currently holds the highest priority for firms, key performance indicators reveal an internal conflict between the primary reasons companies are implementing their cloud, data, and AI initiatives and the methods employed to measure their success. For instance, the most widely-adopted approach for tracking digital transformation achievements is time-to-market for new products and services, selected by nearly 70 per cent of respondents. However, this method is inconsistent with the fact that less than half of FSIs cited increasing business agility as a primary driver for implementing these initiatives.

Furthermore, only 54 per cent of respondents indicated that they are utilising cost reduction metrics, suggesting that nearly a fifth of respondents lack a sufficient KPI in place to measure their primary driver for implementing AI, data, and cloud initiatives. This lack of continuity across projects may be attributed to poor quality or high turnover of leadership.

Growth and transformation

How are you future-proofing your data strategy and infrastructure to handle anticipated growth while maintaining performance, security, and cost efficiency? *[select all that apply]*



Firms are rolling out a diverse range of methods as part of their data and technology strategies. However, the majority are still currently departmentalising rather than taking an enterprise-wide approach to future-proofing their data infrastructure. As many as 60 per cent (the largest proportion of respondents) indicate that they are experimenting in a localised manner.

It appears that most FSIs are delaying a comprehensive strategy and company-wide investment until they are certain of its effectiveness

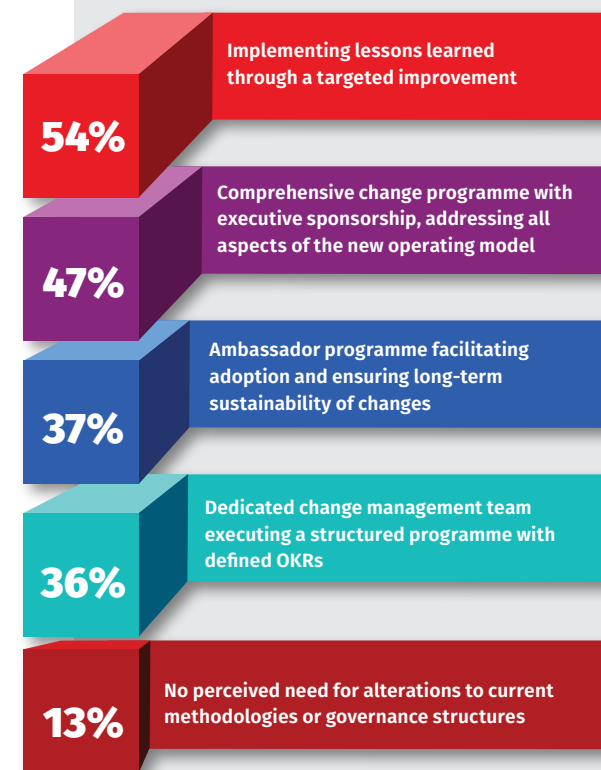
This outcome may indicate a broader industry trend suggesting that many organisations are still in a nascent stage of adopting technologies and advanced data-driven tools such as genAI. This is likely because they are still identifying the most suitable applications for the technology and

Over half of respondents reveal they currently have a targeted improvement programme in place

grappling with uncertainty regarding regulations, risks, and costs. A cloud solution that prioritises adaptability, security, and performance can provide the right infrastructure to facilitate data-driven technologies and accelerate innovation.

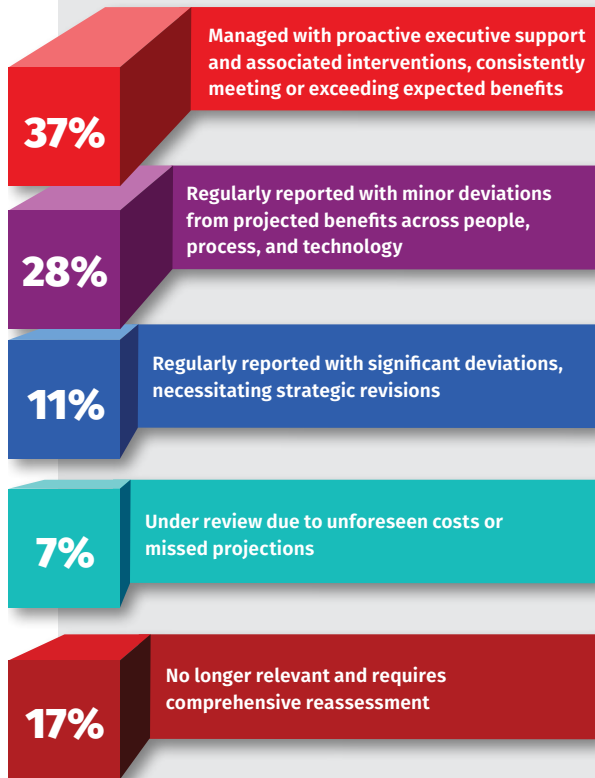
While many firms are currently hesitant to adopt data strategies, many are managing the transformation to cloud, data, and AI technologies through a 'lessons learned' approach, with over half of respondents revealing they currently have a targeted improvement programme in place. If FSIs adopt this strategy at the appropriate pace, they can leverage the insights gained from mistakes and opportunities into future planning and actions. This could lead to companies moving out of the experimentation stage in the near future.

How is your organisation managing the transformation to cloud, data, and AI technologies? *[select all that apply]*



Maturity and barriers

How would you characterise the maturity and efficacy of your business case for cloud, data, and AI initiatives? *[select one option]*



The findings demonstrate that firms are at varying stages of their cloud, data and AI initiatives. Many organisations are still grappling with unforeseen costs and failing to identify enduring use cases.

A combined 35 per cent are experiencing substantial deviations, reviews or even total reassessment of their strategies, indicating that a significant number of financial institutions are currently falling short of their technology objectives.

Given this context, it is unsurprising that the primary obstacle for firms in achieving their targets is strategic uncertainty regarding the commencement of initiatives. Furthermore, misalignment across crucial areas such as security, risk, and compliance – are of which are paramount considerations for

any digital transformation – is also hindering progress. These barriers are also likely to be affecting firms as they transition beyond experimentation and implement their data strategy and infrastructure, a matter further elaborated upon in the report.

While a combined 65 per cent are reporting a high level of maturity and the ability to meet their business case aspirations, those that continuity to struggle to achieve their cloud, data, and AI goals after undergoing reviews, revisions, or

reassessments must identify whether they have the necessary level of buy-in and organisational structure, and whether their company's needs have been aligned with their digital transformation objectives well in advance of initiating a project.

A combined 65% are reporting a high level of maturity and the ability to meet their business case aspirations

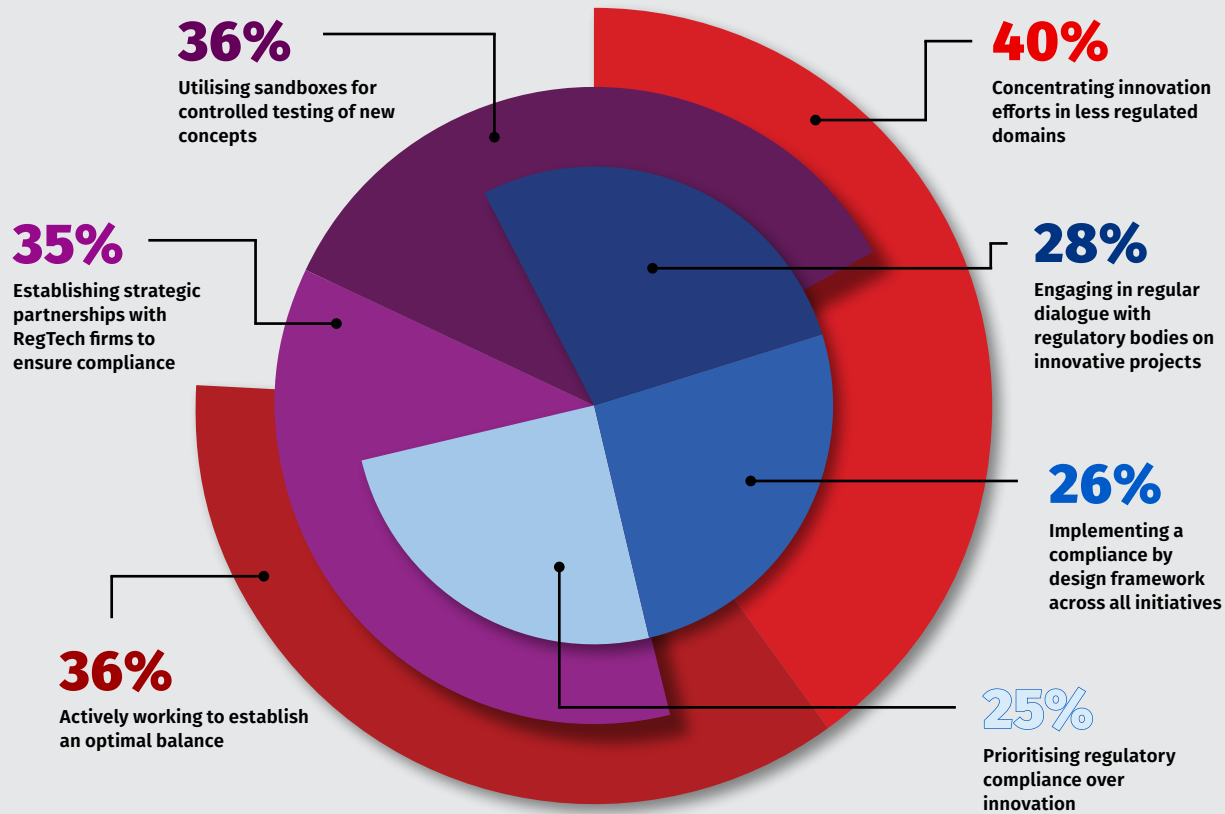
What are the primary obstacles you face in realising your business goals related to cloud, data, and AI initiatives? *[select top two]*



Regulatory compliance

How does your organisation balance innovation imperatives with regulatory compliance in cloud and AI initiatives?

[select all that apply]



Currently, FSIs are employing various methods to balance innovation requirements with regulatory compliance across their cloud and AI initiatives. However with none of these approaches has emerged as a clear leader in this field according to the report.

The highest proportion of respondents, two-fifths, indicated that one of the strategies they employ to manage this balance is to concentrate technology roll outs in less regulated domains. While this approach can provide a secure space during the initial stages of implementing cloud and AI, it cannot serve as a long-term solution if firms aspire to fully realise the potential of these technologies and establish themselves as market leaders or differentiators. This finding aligns with a trend previously highlighted in the report, suggesting that the majority of firms are conducting

localised experimentation when attempting to future-proof their data strategies to accommodate anticipated growth.

Of the firms surveyed, approximately one-third are actively engaged in establishing an optimal balance and utilising sandboxes for controlled testing. However, the majority of firms still lack these approaches.

As many as 65% of respondents are currently missing out on establishing strategic partnerships with RegTech firms

Implementing AI in a highly regulated industry presents significant challenges, with rule makers still to provide concrete guidance surrounding the risks associated with the emerging technology. Nevertheless, establishing strategic partnerships with a RegTech firms, which as many as 65 per cent of respondents are currently missing out on, can assist them in confidently navigate their regulatory compliance responsibilities.

Rackspace Technology's final conclusions



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As financial institutions grapple with the seismic shifts brought by AI and cloud technology, Rackspace Technology's Private Cloud experts—Simon Bennett, chief technology officer and technical solutioning lead, and Waheed Mahmood, banking, financial services and insurance lead—distil the key learnings from this comprehensive study of 102 UK financial services professionals.

With the overwhelming majority of FSIs emphasising the reduction of operational costs as the primary catalysts for initiatives across AI, data, and cloud, the study underscores the fact that many organisations are currently failing to put the customer first. For firms seeking to propel their businesses forward in 2025, it is imperative that they seize the numerous opportunities presented by technology to enhance their organisation's capabilities, such as optimising the customer journey, expediting time-to-market, and mitigating technical debt.

Despite the importance of cost reduction, many firms are grappling with poor-quality leadership and high turnover, which may limit

their capacity for areas beyond cost optimisation.. For technology investments to yield positive outcomes, robust support from senior leadership is paramount.

The results demonstrate that FSIs are experimenting at a departmental level in order to understand the costs and implications of change when future-proofing their data strategy and infrastructure to accommodate anticipated growth. Ultimately, FS will not allocate funds until they ascertain the efficacy of their approach. What is crucial is that when a Proof-of-Concept identifies challenges or errors, it must fail fast but fail forward, with adequate definition and planning required. Firms must learn fast and inject these insights into future planning and steps, while bringing their people along on the journey.

Many FSIs continue to encounter obstacles like unforeseen costs or missed projections in their cloud, data, and AI initiatives, firms must make sure they are asking the right questions at the beginning of their digital transformation. Financial services providers must understand whether they

possess the necessary support and intervention to ensure that the business is well-structured and that the digital shift aligns with their organisational needs.

Striking a balance between innovation and regulatory compliance remains a challenge for firms, with no particular approach emerging as a clear leader. Maintaining regulatory and legal compliance in highly regulated environments is inherently difficult, as organisations often exercise caution to avoid errors due to the risks associated with AI and the potential legal consequences.

Over the next 12 months, firms that can effectively balance strong leadership with the right cloud data infrastructure and expert support may transition from an experimental approach to advanced technology, leading to a transformative process that benefits both the company and its customers.