

## IDC PERSPECTIVE

# Top 10 Trends Driving Technology Investments in Financial Services Worldwide

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## EXECUTIVE SNAPSHOT

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### FIGURE 1

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#### Executive Snapshot: Three of the Top 10 Technology and Business Trends in Financial Services

As the financial services industry hits full stride in 2024, it is dealing with a number of business opportunities and challenges in the deployment of technologies that will have significant impact on the business models in the banking, insurance, and capital markets. Many overlap and/or will affect other initiatives, so careful planning will be necessary.

#### Key Takeaways

- Artificial intelligence (AI), machine learning (ML), and generative AI (GenAI) have gained great interest and investments in financial services, sometimes to the detriment of other initiatives.
- Environmental, social, and governance (ESG) programs are becoming increasingly important in financial institutions, with a focus on sustainability and responsible finance added to carbon impact.
- Fraud, risk, and compliance continue to be major drivers of technology investments in 2024, with institutions needing to improve their ability to manage risks and comply with complex regulations.

#### Recommended Actions

- While it is critical to invest in generative AI now, institutions need to be careful to balance that spend with other critical areas like security and resiliency to ensure the long-term benefits of the organization's operations and businesses.
- Institutions should consider their focus on sustainability improvements — including responsible finance and sustainable investments — in response to increasing pressure on ESG risks and regulated reporting.
- As the modernization of the industry continues, institutions must improve their ability to manage risks, minimize exposure to bad actors, and comply with increasingly complex regulations with a particular focus on fraud, risk, and compliance.

Source: IDC, 2024

## SITUATION OVERVIEW

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As the financial services industry hits full stride in 2024, it is dealing with a number of business opportunities and challenges in the deployment of technologies that will have significant impact on the business models in the banking, insurance, and capital markets. Some of these areas are historically typical solutions like fraud, KYC, and customer experience, others have evolved from migration to operating models that emerged with cloud computing, and others, like generative AI (GenAI), arrived on the scene just over a year ago and have already had a major impact on technology priorities and investments in 2024.

This list is a high-level representation of technology topics and research tracked by the global analyst team at IDC Financial Insights and represents a high-level categorization of the top technology and business trends that will affect projects and investments in 2024. More details are provided in each of the IDC Financial Insight's research calendars for 2024.

The list is not in any prioritized order, and many of these broad categories overlap and/or will impact others, such as the use of artificial intelligence (AI)/machine learning (ML)/GenAI in customer experience or anti-fraud initiatives. Together, these trends are driving an annual growth in technology spend of 9.5% in 2024 across all financial services. IDC estimates that total IT spend in financial services will approach \$620 billion in 2024. What is important to remember, however, is that the priorities and approaches to IT spend between subindustries, global regions, technologies, and individual institutions will differ based on their specific business challenges and goals.

### **Number 1: Artificial Intelligence, Machine Learning, and Generative Artificial Intelligence**

AI/ML technologies have already earned critical roles in everything from customer empathy to fraud detection at most financial institutions. Growth in AI/ML technology spend has consistently outpaced overall IT spend in financial services for a number of years and continues to do so in 2024.

GenAI's emergence in 2023 has had an exponential effect on AI interest and investment. GenAI has the potential to affect every area of financial services, from customer experience to credit decisioning to pricing and revenue management to business intelligence, fraud forensics, and software development. However, while many institutions are piloting and/or implementing GenAI in small tests, regulations surrounding GenAI may slow some deployments, especially in sensitive areas like credit decisioning. Explainability has been the focus of AI for years now and GenAI platforms will undergo the same scrutiny or more going forward.

In spite of these concerns, 31% of institutions say they are "already investing significantly in generative AI with an established spending plan for training, acquiring GenAI enhanced software, and consulting services in next 18 months" (source: IDC's November 2023 *Future Enterprise Resiliency and Spending Survey, Wave 10*). Such an aggressive schedule of implementing a new technology bears asking where the source of investments will be. Here, 54% of financial institutions surveyed say that they "will fund any new GenAI spending by more aggressively cutting spending in other areas."

## Number 2: Environmental, Social, and Governance

Most financial institutions have historically been focusing on sustainability in the context of energy and carbon footprint for a number of years. This is where metrics were clearest and where institutions could track energy usage. In 2023, the International Sustainability Standards Board and the Global Reporting Initiative are putting pressure on how institutions report their ESG risks. For example, concern has risen over the computing costs and associated carbon output of GenAI on carbon footprint.

What started as a focus on carbon footprint is now expanding to responsible finance, which includes serving the under- or non-banked and responsible lending practices based on propensity to pay instead of ability to pay. In capital markets, the demand for sustainable investments is growing in popularity. Until 2023, however, there was confusion in the market as to what was deemed a "sustainable" or ESG investment vehicle. In 2023, the Securities and Exchange Commission (SEC) proposed and enacted two rules that clarified how investment institutions could name and sell funds labeled as "ESG" or "green" investments. In the insurance industry, regulations are focused on risk management, including things like climate risk in assessing insurability and business governance.

In an IDC survey in 2023, financial institutions worldwide cited "sustainability improvements" as their number 3 highest priority business goal, after "employee engagement and retention" and "adoption of GenAI" (source: IDC's August 2023 *Future Enterprise Resiliency and Spending Survey, Wave 7*).

## Number 3: Fraud, Risk, and Compliance

With every new technology and the digitization of the industry, institutions must improve their ability to manage their risks, minimize their exposure to bad actors, and comply with increasingly complex regulations. This reaches across multiple domains, from payments and lending fraud to regulated operational resilience. For these reasons, 2024 will continue to see fraud, risk, and compliance as a major driver of technology investments.

The age-old regulations around know your customer (KYC) and anti-money laundering (AML) continue to challenge institutions as bad actors find and develop new attack vectors. Add to those challenges the increased frequency of cybersecurity attacks (including ransomware) and financial institutions find themselves continuously battling with the bad actors to anticipate, detect, and deter fraud.

Unfortunately, institutions with multiple disparate platforms are often required to fight this battle. In IDC's November 2023 *North America Banking Technology Survey*, 66% of banks told IDC that they use three or more vendors to manage financial crimes and compliance programs, including KYC, transaction monitoring, and fraud.

GenAI — while holding a lot of positive potential — will create yet another attack point as the technology can be used to create and/or mimic identities with high fidelity, challenging identity confirmation in extremely sensitive financial environments and transactions. Luckily, 26% of the responding banks in the same survey have either already deployed GenAI platforms to fight financial crimes or have evaluated and have begun to deploy that technology for the same purpose.

## Number 4: Customer Experience

Customer engagement has been at or near the top of every financial services survey for years. AI and digital channels have undoubtedly improved the customer experience while improving revenue opportunities and lowering costs to serve the consumers, small businesses, and corporate customers.

The introduction of GenAI in customer services settings like the contact center has the potential to drive a step change improvement by providing automated, real-time research abilities during a customer call or chat. This use case is currently in production environments in a few institutions worldwide, and the results in productivity have been substantial. Interestingly, one such implementation had the added benefit of service agents claiming that the GenAI platform allowed them to focus on what their customers were actually saying instead of being distracted by note-taking or interacting with multiple applications on their desktops.

In IDC's June 2023 *Future Enterprise Resiliency and Spending Survey, Wave 5*, institutions were asked what technological offerings best improve employee engagement and business results. The top answer, with 50% of the organizations responding, was "technology that helps them make better decisions, automate routine tasks, and enhance customer experience using AI." Tools like AI/ML/GenAI and policies like responsible finance will be beneficiaries from the focus on customer, and staff, experience.

## Number 5: Embedded Finance

The Future of Industry Ecosystems is an IDC research practice that focuses on multiple heterogeneous industries working together seamlessly to support customer journeys. Industry ecosystems are getting closer to becoming pervasive as finance as a service becomes a viable business strategy, threatening some traditional institutions and providing business opportunities for others. Finance as a service is relatively ubiquitous today, with financial institutions and fintechs providing financial services through external branded partners. Uber, for instance, offers a deposit account and debit card to its drivers, who, for all intents and purposes, consider Uber to be "the bank."

Corporate banks have recognized the value of participating in open and embedded finance. 77% of corporate banks worldwide cited "offering third-party products and services" as their top-rated business model for potential monetization among other business models (source: IDC's October 2023 *Financial Insights Survey*). Likewise, embedding investments and wealth management into the day-to-day digital experience of bank or insurance customers has the potential to increase engagement and revenue.

Given this potential, it is easy to forget that financial services is a regulated industry protecting both customers and markets. Increasing the number of organizations involved in a customer journey or experience exposes risks of shared responsibility and liability. This is especially true as data is shared among the participants in an embedded environment. In a world of connected industry ecosystems, where not only data but also operations and applications may be shared, risk management and compliance will be under even tighter scrutiny.

Nevertheless, customers want seamless integration of their financial resources with other aspects of their daily lives, whether in retail situations, in health care settings, or in work with public services organizations. For this reason, financial institutions will proceed (albeit carefully) with embedded finance as one of many business models.

## Number 6: Real Time

The move to more standard real time continues to gain momentum globally. In 2023, the European Commission proposed a PSD3 guideline that will increase the pressure to move to real-time payments. While real time has gained adoption in Europe and Asia, it is still behind in North America. However, institutions in North America are increasing their investments in real-time payments. IDC estimates that growth of spend in real-time payments in the United States, for example, is estimated to be 12.6% per year and even higher at 13.2% for tiers 1 and 2 banks, relative to a global growth rate in real-time payments of 11.7%.

Similarly, while not real time per se, the Securities and Exchange Commission plans to move to T+1 settlement requirement for most broker-dealer transactions by May 2024, moving the markets one day closer to real time. For many of these organizations, significant investments will have to be made to accommodate the new regulations.

The insurance industry is looking at real time in a different sense. This industry, as are others, wants to make faster decisions using real-time intelligence to manage risks, enhance customer experience, and capture fraud faster. The biggest hurdle here will be in the data architecture at the organization, something that is discussed in more detail in the section on enterprise intelligence (EI).

## Number 7: Enterprise Intelligence

Data is the foundation of the institution's business and is becoming more challenging to manage given the expanding physical and virtual "locations" of the institution's data. This challenge is becoming more acute as institutions pilot and have plans for technologies like GenAI, which demand more data. Strategic platforms will be needed to not only manage existing data but also to leverage third-party data that supports the lines of business. Without this enterprise capability, analytics and AI capabilities will potentially leverage incomplete or incorrect data, causing delays or decision risks.

Ultimately, IDC defines *enterprise intelligence* as an organization's combined ability to foster a data-driven culture, learn collectively, synthesize information, and deliver resulting insights at scale to decision-makers to gain a sustainable competitive advantage or fulfill the organizational mission. This strategy requires a re-architecting of the institution's data infrastructure and a review and/or restructuring of the organization's partner ecosystems, including data providers, cloud services, and analytics partners. The institution itself must prepare to align security, governance, and risk functions with the modernized data infrastructure and, in turn, drive the benefits of this enterprise capability to the lines of business.

In a recent IDC survey, only 12% of institutions in North America reported that enterprise intelligence is "pervasive across the whole organization" (source: IDC's November 2023 *North America Banking Technology Survey*). The positive note here is that 62% of those organizations are either "starting to implement an EI capability across one to two business or IT areas" or have "significant maturity in EI across business units."

## Number 8: Digital Infrastructure

Cloud has been adopted in every area of financial services, from customer experience to revenue management to back-office operations, including critical functions like core banking systems, payments, policy administration, and high-volume trading. The pace of cloud adoption, and investments in the same, doesn't yet show signs of slowing down, with investments in public cloud technologies and services still outpacing overall IT spend in financial services. At the same time, 60%

of institutions plan on keeping up to 20% of their workloads in dedicated, private datacenter resources (like mainframe) within the next two years (source: IDC's November 2023 *North America Banking Technology Survey*).

Fit for purpose and legacy modernization will continue to drive infrastructure deployments over both dedicated resources and cloud environments. Edge technologies will also continue to gain adoption (a technology that over half of the institutions in North America cited as a challenge to managing their infrastructures), as will the need to bring third-party partners to the infrastructure to support various business functions like authentication or compliance services.

Unfortunately, IDC's November 2023 *North America Banking Technology Survey* shows that the "diversion of resources to generative AI tests and workloads" has become the top challenge for financial institutions as they move to digital infrastructure. There will undoubtedly be a balancing act that will take place in 2024 as institutions recognize that the operational foundation that is digital infrastructure is at risk if too much focus and investments are moved to projects like GenAI.

## **Number 9: Scale, Resilience, and Security**

As digital infrastructure expands beyond the walls of the datacenter, organizations are being challenged to build in the security, resiliency, and scale to ensure uninterrupted operations. This has already become a regulatory requirement in Europe (e.g., DORA), and the Canadian market is also moving closer to adopting similar guidelines (operational resilience and operational risk management), while in the United States, the Federal Reserve Bank, FDIC, and OCC look to consolidate existing regulations in the form of a framework – the Sound Practices to Strengthen Operational Resilience (Sound Practices) – to address these challenges in the banking industry.

With all of this modernization and transformation happening, there is a need to better manage challenges that arise in the scale, security, and resiliency of modern digital infrastructure. Visibility will be critical to monitor the complex environment of platforms, systems, data, and partners to detect disruptions or interruptions as they occur. Once a disruption is detected, automation must be in place to attempt resolution as quickly as possible, with minimal or no need for human intervention – at least at first. Escalation to IT staff will need to be intelligent, with alignment between the type of disruption and the appropriate staff.

The need to create enterprise-level capabilities to manage digital infrastructure will require a tight integration and partnership between providers that can bring pieces of a whole solution together in a seamless environment, from network observability to security and privacy technologies to business scale and continuity to automation and resolution platforms.

## **Number 10: Skills, Partnerships, and Services**

Two major forces have been coming together, more than ever, that will affect the financial institution's ability to create and support products, services, and business models.

So much technological modernization is happening and the investments and adoptions levels in financial services are so high that few institutions have all the internal staff and skills they need to manage a quickly changing technology environment in time to avoid disruption and/or take advantage of market opportunities.

As it has been for many years, fewer and fewer institutions are able to find qualified talent to staff their own IT organizations. This has been felt acutely as the technology and fintech sectors attracted more skilled workers away from traditional financial institutions. As legacy technology staff (e.g., COBOL programmers) retire out of technology roles, institutions are finding it difficult to modernize to current platforms using internal staff.

This means that the institutions must rely more on close partnerships with infrastructure providers, consulting firms, cloud providers, systems integrators, and software vendors to move to a modern operating environment. While technologies like open APIs and microservices ostensibly make it easier to integrate across multiple platforms and systems, it still requires the institutions to manage the partners themselves and ensure that the resultant, more complex infrastructure can be monitored and managed, including the organization's third-party risk.

## ADVICE FOR THE TECHNOLOGY BUYER

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- While it is critical to invest in generative AI now, institutions need to be careful to balance that spend with other critical areas like security and resiliency to ensure the long-term benefits of the organization's operations and businesses.
- Institutions should consider their focus on sustainability improvements, including responsible finance and sustainable investments, in response to increasing pressure on ESG risks and regulated reporting.
- As the modernization of the industry continues, institutions must improve their ability to manage risks, minimize exposure to bad actors, and comply with increasingly complex regulations with a particular focus on fraud, risk, and compliance.
- Institutions should proceed carefully with embedded finance as a business model, ensuring seamless integration of financial resources with other aspects of customers' daily lives while managing shared responsibility and liability risks.

## LEARN MORE

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### Related Research

- *Instant Payments: Reshaping Corporate Banks' Business Models, Enhancing Tools and Processes to Exploit and Offer IP Benefits* (IDC #US50795923, November 2023)
- *IDC Perspective: The Proliferating Use Cases for Generative AI in the Capital Markets* (IDC #US51215523, October 2023)
- *IDC FutureScape: Worldwide Future of Industry Ecosystems 2024 Predictions* (IDC #US50217123, October 2023)
- *Third-Party Risk Management* (IDC #US51320823, October 2023)
- *IDC FutureScape: Worldwide Digital Lending 2024 Predictions* (IDC #US51287823, October 2023)
- *IT Spending on Payments Is Growing Rapidly* (IDC #US50974923, June 2023)
- *Embedded Finance and Banking as a Service Fuels Customer Experience Modernization Efforts* (IDC #US50582623, April 2023)

## Synopsis

This IDC Perspective discusses the top 10 trends driving technology investments in the financial services industry in 2024. These trends include the rise of artificial intelligence (AI), machine learning (ML), and generative AI (GenAI); the focus on environmental, social, and governance (ESG) factors; the importance of fraud, risk, and compliance; the emphasis on customer experience; the emergence of embedded finance; the shift toward real-time operations; the need for enterprise intelligence; the adoption of digital infrastructure; the importance of scale, resilience, and security; and the increasing reliance on skills, partnerships, and services.

"There are many areas in financial services that will drive technology priorities," said Jerry Silva, program vice president at IDC Financial Insights. "However, the emergence of generative artificial intelligence in 2023 has had an exponential effect on investments in almost every area of technology investment, potentially affecting other areas of financial services — sometimes negatively."



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