# The Future of Financial Services is Hybrid Cloud:

## Resilient, Secure, Flexible

rackspace technology®

# Contents

## Executive summary

# Hybrid cloud as the catalyst for financial sector transformation

Regional banks, credit unions, domestic home lending, wealth management and insurance firms are under pressure to transform — not only to keep pace with rapid regulatory changes but to differentiate in an increasingly crowded market. Public cloud platforms, particularly in the form of hyperscalers (e.g., Amazon Web Services (AWS), Microsoft® Azure®, Google Cloud) have helped them tackle some of these challenges, but not all.

With countless legacy applications that need refactoring to work in a hyperscale public cloud environment, many financial services organizations still struggle with interoperability issues, data latency, security concerns and unforeseen costs. They remain torn between the needs to safeguard core legacy systems and to develop new customer-facing solutions at speed. They require the flexibility to become artificial intelligence (AI) innovators without sacrificing the enterprise-grade security that regulators demand.

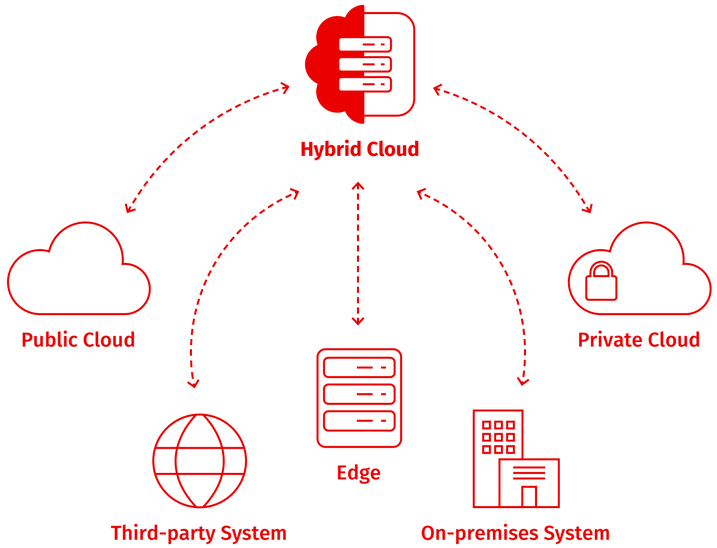
## Hybrid cloud offers a solution

Gartner predicts that 90% of organizations will adopt a hybrid approach through 2027.[1] In essence, hybrid cloud merges the security and control of private cloud platforms with the flexibility and agility of the public cloud.

Yet not every hybrid cloud solution can address the unique needs of the financial services sector. What is required is a fully hybrid operating model that empowers organizations to seamlessly shift workloads between public cloud, private cloud, edge, third-party and on-premises systems. With no vendor lock-in or egress fees to move data off hyperscaler platforms, organizations gain true data freedom — unfurling opportunities for large-scale innovation while maintaining stringent security, compliance and control.

This report explores how an AI-infused hybrid cloud can help regional banks, credit unions, domestic home lending, wealth management and insurance firms combine the advantages of a modern private cloud with the pay-as-you-go flexibility of the public cloud to refashion their operations. This creates a solid foundation for achieving measurable returns on financial institutions digital transformation efforts.

1 Gartner, "Gartner Forecasts Worldwide Public Cloud End-User Spending to Total $723 Billion in 2025." November 19, 2024.




**Gartner predicts that 90% of organizations will adopt a hybrid cloud approach through 2027[1].**

**Introduction**

# Making the case for hybrid cloud in the financial services industry

Globally, financial services companies are caught between the proverbial rock and hard spot. On one hand, they face the same regulatory compliance mandates, cybersecurity threats and fintech disruption as their Tier 1 brethren, despite lacking equivalent talent and financial resources to respond. On the other hand, escalating customer and stakeholder expectations are pushing them to embrace digital transformation, open banking frameworks and AI, while simultaneously improving efficiencies and cutting costs.

To address this dilemma, mid-tier financial services organizations have been steadily migrating to the cloud — and with good reason. Beyond delivering improved scalability and built-in security controls, public cloud platforms help fuel innovation by empowering financial services firms to use advanced analytics to track evolving customer preferences and quickly roll out new service offerings.

## What's barring the way?

Yet, despite these vast benefits, obstacles remain. Attempts to move traditional legacy applications to the cloud have spawned interoperability issues, data latency problems and budget overruns. Reliance on third-party providers limits organizational abilities to control the infrastructure on which their AI workloads are deployed, potentially leading to downtime and unanticipated costs. Concerns around data sovereignty and security have intensified, especially in an increasingly stringent regulatory landscape. Additionally, many financial organizations have fallen hostage to the hyperscalers, with data repatriation efforts triggering significant and unanticipated data egress fees.

The promise of simplified management has also proven elusive. In moving from traditional on-premises environments to a public cloud model, reliance on platform-as-a-service (PaaS) and software-as-a-service (SaaS) applications has surged. This has put pressure on IT teams to navigate multiple vendor contracts, inconsistent security protocols and integration complexity that often demands custom solutions.

Simultaneously, these teams remain tasked with maintaining the legacy applications that banks, credit unions and wealth management firms continue to rely on to provide critical functionality. While many core systems have been transitioned from on-premises to outsourced data centers in recent years, exposing these workloads to public cloud environments is a non-starter. As a result, financial services organizations frequently operate in a patchwork environment composed of siloed public and private cloud platforms that are costly to run, overly complex, lack a unified enterprise-level view and continue to stagger under a load of technical debt.

## Introduction continued

# Not all hybrid clouds are created equal

How can organizations resolve this dilemma? By implementing a workload aware hybrid cloud solution. But not just any hybrid cloud. What's needed is a hybrid cloud solution that gives organizations the flexibility to distribute workloads across public clouds, private clouds, on-premises infrastructure and edge environments — while interconnecting them all to unlock the full potential of each.

A purpose-built hybrid cloud solution that delivers the operational resiliency, data protection and privacy required to meet the most stringent regulatory and reporting mandates — with enterprise-grade security embedded. An AI-infused hybrid cloud designed to fuel the next wave of digital transformation, innovation and analytic insight — free from vendor lock-in. A fully managed hybrid cloud that bridges talent gaps and is specifically designed for the needs of the financial services sector.

When implemented effectively, this solution can position mid-tier banks such as regional banks, credit unions, domestic home lending and wealth management firms to host each individual workload in its optimal location to enhance data accessibility, control and visibility across the extended enterprise. All this while optimizing performance, maturing the security function, controlling costs and maintaining a seamless customer experience.

This report will explore what this looks like in practice.

A purpose-built hybrid cloud solution that delivers the operational resiliency, data protection and privacy required to meet the most stringent regulatory and reporting mandates — with enterprise-grade security embedded.

Section 1

# Building resiliency

Given the highly regulated nature of the financial services industry, banks, credit unions and wealth management firms can face significant consequences for non-compliance. While mandates differ by jurisdiction, the rules that govern third-party risk management, cybersecurity, digital operations and breach reporting are extensive.

## Spotlight on global regulations

**Here are some of the regulations that financial services organizations may need to adhere to regarding digital operational resilience:**

- National Institute of Standards and Technology (NIST) Cybersecurity Framework (North America)
- U.S. Federal Reserve's interagency paper SR 20-24
- Digital Operations Resilience Act (DORA), which took effect across the EU in January 2025
- Financial Conduct Authority's operational resilience rules (U.K.)
- Canada's third-party risk management guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI)

Many of these regulations aim to strengthen the operational resiliency of the critical systems that underpin the financial services sector. Failing to comply with these emerging standards, several of which begin to apply in 2025, can result in more than fines, sanctions and heightened regulatory scrutiny. It can also increase the likelihood of fraud, cyber attacks and data breaches. This can be crippling for many organizations: as of 2024, the average cost of a data breach in the financial industry worldwide was $6.08 million, up from $5.9 million in 2023.[2]

Figure 1.0 outlines the most common cloud security incident reported in 2024. Data security breaches have taken the number one spot with 21% with misuse of cloud services occurring 17% of the time. The frequency of cloud security incidents highlights the necessity of prioritizing the protection of cloud assets that contain sensitive data.

## Advanced security and compliance

To counter these threats, financial services organizations must continually refine their security postures — an arduous task for many mid-sized entities. This is even more critical as organizations begin adopting AI and cast their eyes towards the potential of quantum computing. In fact, IDC estimates that worldwide spending on AI will reach $632 billion by 2028, with the financial services sector accounting for 20% of that expenditure.[3]

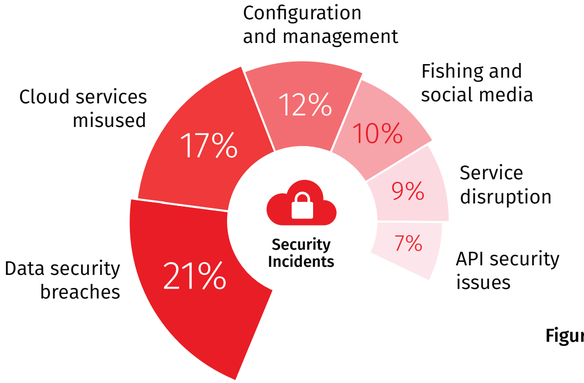



Figure 1.0

As the need for greater security and compliance rises, many organizations are struggling to align their cloud strategy with business demands and to attract the specialized talent required to meet those demands.

While many global regulators now permit reliance on pre-certified public cloud services, cloud security incidents are on the rise, with 61% of organizations reporting breaches in 2024.[4]

Given these issues, 69% of businesses say they have considered repatriating a portion of their workloads from public clouds back to private clouds and on-premises infrastructure, with 50% citing data security and compliance requirements as a rationale.[5]

2 Statista, "Global cost per data breach on average in financial industry 2019-2024," by Ani Petrosyan. September 11, 2024.

3 IDC, "Worldwide Spending on Artificial Intelligence Forecast to Reach $632 Billion in 2028," by Michael Shirer. August 19, 2024.

4 Cybersecurity Insiders, "2024 Cloud Security Report: Unveiling the Latest Trends in Cloud Security," by Jane Devry. 2024.

5 Rackspace Technology, "The 2025 State of Cloud Report." Download here.

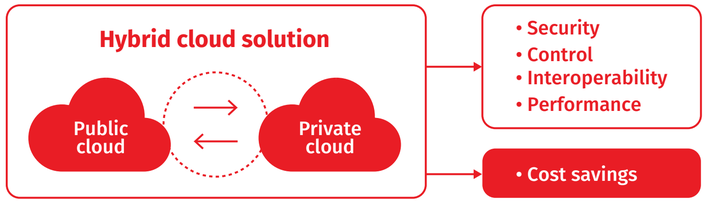
## Section 1 continued

# “Both and”, not “either or”

Importantly, this does not diminish the business case for public cloud platforms, especially for organizations seeking to innovate and expand share of wallet. Rather, it highlights the essential role that a hybrid cloud capability can play in helping mid-tier financial services companies balance their competing business needs.

This is ultimately because a hybrid cloud solution offers banks, credit unions and wealth management firms the best of all worlds, provided it is purpose-built to intelligently manage workloads. Beyond gaining the flexibility to maintain and run legacy and mission-critical applications where it makes most sense, organizations can use private cloud to meet their privacy, security and data sovereignty obligations, while leveraging the public cloud to modernize above the core.

With managed services that bridge the private cloud and public cloud environments, financial services companies can also enhance security, control, interoperability and performance — while realizing the cost savings that come from pay-as-you-go access to compute capacity.




## Increasing demands for data sovereignty

Geopolitical trends are intensifying regulatory scrutiny on data sovereignty — the requirement to locally collect and store personal data and financial information. Rackspace hybrid cloud assures that an organization’s data stays resident in an in-country data center exclusively accessible to that organization. This level of security enables financial services companies to rigorously control data authorizations, vastly strengthening both regulatory compliance and security measures.

# Integrating AI

In many ways, AI is at the heart of this transformation, with 84% of organizations integrating it into their cloud strategy to improve efficiency, analytics and security.[6] Organizations farther along the cloud maturity curve are especially likely to be making use of AI capabilities for advanced threat detection. Within the financial services sector alone, 40% of organizations are using AI to bolster their fraud detection and prevention capabilities.[7]

Numerous use cases exist. For instance, by employing AI to analyze the millions of transactions that take place each day, financial services companies can flag unusual patterns in real time to mitigate systemic risk. Automating data collection and mining trade surveillance data can streamline anti-money laundering (AML) and know your client (KYC) processes, strengthening risk management. Similarly, AI-embedded cloud solutions can help banks optimize their intraday liquidity management and enhance risk assessment capabilities.

Case in point: Intesa Sanpaolo, a major banking group in Europe, leveraged its on-premises data analytics lab, cutting-edge AI technology and the advanced capabilities of the public cloud to upgrade risk management, support real-time risk reporting and reduce risk modeling timelines by 30%.[8]

6 Rackspace Technology, “The 2025 State of Cloud Report.” Download here.
7 Rackspace Technology, “The 2025 State of Cloud Report.” Download here.
8 Google Cloud, “Intesa Sanpaolo: Managing evolving financial risk at speed with data analytics and AI.” 2024.

## Section 1 continued

### Next-generation security

However, to fully realize the potential of these use cases, next-generation security is imperative. This is where Rackspace hybrid cloud shines ensuring that each application resides in the right environment, providing a seamless experience across your cloud landscape.

With a framework that applies enterprise-grade security controls across public cloud, private cloud, edge, third-party and on-premises workloads, Rackspace can help mid-tier financial services companies keep their data protected whether it's in transit, in use or at rest.

End-to-end encryption, zero trust protocols and granular access controls help organizations safeguard networks and applications while enabling interoperability across complex cloud environments. AI-powered system monitoring, automated threat detection and response and containerized environments help mitigate cyber risks, while immutable backups support remediation efforts — enhancing business continuity and disaster recovery. These capabilities help organizations maintain critical workloads with high availability.

### A stronger regulatory stance

In a beneficial twist, hybrid cloud adoption also positions mid-tier financial services companies to meet ancillary regulatory mandates.

For instance, to promote transparency, accountability and compliance, most global financial regulators require organizations to maintain robust audit trails. By offering mid-tier financial services companies a unified hybrid cloud management platform that tracks user movements, transactional timestamps and trade activity across the multicloud environment, an industry-aware hybrid cloud capability can strengthen customer/third-party monitoring, regulatory compliance and reporting.

For their part, organizations governed by climate disclosure policies — such as the Task Force on Climate-Related Financial Disclosures (TCFD) standards and the EU's Corporate Sustainability Reporting Directive (CSRD) — can lower their carbon emissions by relying on cloud computing to reduce the high energy utilization of on-premises data centers.

By helping mid-tier financial services companies fully harness the potential of AI while enhancing security, scalability and compliance, hybrid cloud does more than strengthen operational resiliency. As the next section of this report shows, it also empowers organizations to increase business agility, elevate the customer experience and reduce operational costs.

By helping mid-tier financial services companies fully harness the potential of AI while enhancing security, scalability and compliance, hybrid cloud does more than strengthen operational resiliency.

## Section 2

# Acing innovation

Mid-tier financial services companies are no strangers to the industry's competitive landscape. The rise of digital-first banks has eroded regional client bases and raised customer expectations for flawless user experiences. Fintech disruptors are encroaching on traditional revenue streams, from mobile payments and financing to online investing. The simplicity of switching providers, coupled with a price-first focus, has weakened customer loyalty. This has put banks, credit unions and wealth management firms under unprecedented pressure to boost efficiency, reduce costs and prioritize innovation.

## AI first

In pursuit of effective answers, countless financial services companies have turned to AI. In addition to helping organizations increase resiliency and regulatory compliance, AI can offer an ideal foundation for reimagining the user experience, reducing time-to-market for new products and services and modernizing operational processes.

Customer-facing AI solutions include chatbots, robo-advisors and content generators capable of answering common questions, customer journey mapping to make personalized product recommendations and predictive analytics to alert customers to potential loan defaults or billing issues. For instance, BankUnited, a regional U.S. bank, used a generative AI model to help frontline employees meet customer needs, achieving response times of under 10 seconds.[9] Likewise, EVO Banco, a digital bank in Spain, used AI developed on its public cloud platform to automate telephone interactions with customers, achieving 95% routing accuracy on calls processed through the AI interface.[10]

And the applications don't stop there. Financial services organizations are increasingly leveraging AI to automate back office operations, enhance financial analysis and risk management, monitor loan portfolios, improve claims efficiency, optimize expense management, accelerate report compilation, assist with actuarial statistical analysis and strengthen talent recruitment and engagement.

The **Foundry for AI by Rackspace (FAIR™)** helps financial services companies ideate, incubate and industrialize AI models for both internal and external use. Innovative capabilities — such as a Private AI solution that keeps sensitive data within the private cloud — enable organizations to balance compliance and innovation, whether building AI-native applications or embedding AI into existing workflows.


9 AWS, "BankUnited Enhances Customer and Employee Satisfaction for SMB Banking Using AWS." 2024.

10 Google Cloud, "EVO Banco: Developing a human-centric voice banking platform with Google Cloud." 2024.

## Section 2 continued

As the reliance on GenAI increases, the potential of agentic AI rises as well — an AI system that relies on machine learning, large language models (LLM) and AI agents to autonomously perform tasks and adapt to new situations.


**Rackspace Intelligent Technology Assistant (RITA™)** is an interactive chatbot that leverages retrieval-augmented generation (RAG) to respond to IT service requests, initiate workflows for hardware or software provisioning, reset forgotten passwords and provide information on security policies. By connecting external systems in the public cloud with internal systems on a private network, RITA demonstrates the power of hybrid cloud integration.

## Unlocking the promise

Yet AI can only deliver on its promise if it can make sense of the petabytes of data that fuel its inner workings. This is where hybrid cloud technology and capabilities become essential. By integrating data from multiple sources — including the public cloud, private cloud, SaaS applications and edge devices — an AI-infused hybrid cloud positions financial services companies to realize a measurable return on their transformational investments.

This gives organizations more than just seamless access to their data assets, regardless of their location. It also empowers them to safely and securely develop applications, run workloads, deploy agentic AI solutions and conduct AI inferencing and fine-tuning on the cloud platform of their choice and across multiple environments. For example, data used to train AI models can be restricted to the private cloud, while customer-facing applications remain hosted on public cloud platforms.

At the same time, financial services companies seeking innovative and secure AI implementations must secure more than the large datasets AI systems rely on. They must also ensure that their critical infrastructure and platforms remain resilient to threats that could disrupt operations. Hybrid cloud solutions created with the industry in mind allow organizations to fully configure and manage their AI platforms inside internal firewalls, offering a level of security unavailable in public cloud-only environments.

By integrating data from multiple sources — including the public cloud, private cloud, SaaS applications and edge devices — an AI-infused hybrid cloud positions financial services companies to realize a measurable return on their transformational investments.

## Section 2 continued

**Rackspace AI Anywhere** is a private cloud solution that merges cutting-edge AI and machine learning capabilities with a strong emphasis on data security and privacy. As an edge platform, it can be deployed in on-premises data centers, third-party data centers and colocation environments — strengthening AI reliability while supporting enhanced performance, efficiency and results.

Properly executed, this type of hybrid cloud solution can alchemize an enterprise-level modernization, dismantling silos between data repositories, cloud platforms and legacy systems to propel agility and reduce technical debt.

# Embracing hybrid

What makes this approach groundbreaking is that it contemplates a fully hybrid operating model. Critical workloads continue to run on core systems within secure and hardened environments, delivering the high resilience and security financial services companies demand. Using containerized solutions (e.g., Kubernetes) and DevOps practices such as Infrastructure as Code (IaC), organizations can optimize the performance of applications and workloads that require low latency and intensive processing (e.g., trade execution) in a private cloud environment. At the same time, they can integrate public cloud resources to innovate, experiment and transform.


## Discover data freedom

Advanced analytics, customer insights and enhanced decision-making all hinge on an organization's ability to access its data assets. However, costly egress fees can confine businesses to a single hyperscaler, making it difficult to move data across multiple clouds. Rackspace Data Freedom removes these barriers by storing data centrally — adjacent to the cloud, but not in it. This allows organizations to cost-effectively transport their data across their public and private cloud platforms, without significant data exfiltration costs and while maintaining strong security controls.

By adopting a next-generation hybrid cloud strategy, banks, wealth management and insurance firms can combine structured historical data with cloud native services to unlock new business insights, spur AI-driven innovation and drive down operational costs. However, achieving these outcomes necessitates a workload-aware deployment model.

Section 3

# How to get it right: Workload optimization

Despite the promise of hybrid cloud, many financial services organizations remain cautious. With tightening budgets and rigorous regulatory oversight, there is no leeway for cost overruns or ineffective integrations. To avoid missteps, a deliberate and forward-thinking approach to cloud strategy is essential — one that assesses workloads holistically and employes systems thinking to not only implement the right technologies but to also adopt the right processes and activate the right people.

## Becoming workload-aware

A good place to start is with workload optimization. A recent Rackspace survey revealed that 54% of organizations with mature cloud models prefer a comprehensive workload-by-workload analysis to decide where to host all their workloads, while less mature organizations tend to focus only on where to put critical workloads.[11]

This analysis is far from trivial. As financial services companies understand, legacy systems and applications were not designed or built with cloud in mind, scuttling efforts to migrate these workloads and integrate them with cloud-based platforms. Even workloads that could be suited for the cloud — such as those that would benefit from consumption-based pricing rather than remaining fixed capital costs — may perform better on a modern private cloud, especially if they are proprietary, mission critical or contain sensitive data. Careful consideration is also necessary when determining what to move to public cloud platforms and what to operate on the edge.

To achieve an effective return on investment, the key is to align business needs to specific transactional workloads to manage expenses. This approach ensures that costs increase only when utilization rises and fall when business activity slows.

## Finding balance

Unsuccessful cloud implementations make it clear that this is easier said than done. Designing a hybrid cloud environment that balances scalability, flexibility, security and control requires a depth of expertise that many mid-tier financial services companies lack.

In the U.K., for instance, 25% of financial services institutions say they lack the internal expertise necessary for strategy development and implementation of cloud, data and AI initiatives,[12] highlighting a wider struggle to maintain the necessary talent to manage their evolving technological landscape. More broadly, organizations whose cloud environments are not performing as expected often face cloud integration issues, with 40% citing the lack of skilled cloud professionals as a constraint on effective cloud management.[13]

Businesses that overcome these obstacles understand the imperative of collaborating with the right partners to augment their internal skills.

11 Rackspace Technology, "The 2025 State of Cloud Report." Download here.

12 Rackspace Technology and FSTech, "Navigating the digital shift: Cloud, Data, and AI in Financial Services Industry." 2024.

13 Rackspace Technology, "The 2025 State of Cloud Report." Download here.

## Section 3 continued

# Why managed matters

Navigating the intricacies of AI, hybrid and multicloud environments is hard. Organizations looking for the easy button are coming to recognize the benefits of partnering with a single hybrid cloud managed services provider.

Significantly, a fully managed service extends far beyond hosting an organization's applications and hardening its environment. It marries artificial and human intelligence to enforce strict governance procedures, actively monitor threats, strengthen security controls and equip financial services companies to address compliance mandates.

It takes charge of daily cloud administration tasks, allowing internal resources to focus on more strategic initiatives. In addition, it provides access to independent and unbiased advisory services that help organizations intelligently optimize their workloads to boost operational resiliency, execute their digital ambitions and keep costs under control.

## Did you know?

As a cloud pioneer, Rackspace co-founded OpenStack with NASA and brings 25+ years of experience designing, deploying cloud environments, migration to cloud and optimizing applications and data workloads at scale. Our technology-agnostic approach helps to ensure that organizations have access to the world's leading technologies — across AI, applications, data and security — to meet their specific operational needs.

## Conclusion

# Connection, cohesion, collaboration

For mid-tier financial services organizations caught between Tier 1 banks and digital-first fintechs, operational realities are stark. The resources required to comply with cybersecurity, operational resilience and consumer protection regulations are considerable and unlikely to diminish. Decades of accrued technical debt hinder efforts to modernize legacy systems, incorporate AI and ramp up automation. In the U.S. alone, 79% of IT decision-makers say they are struggling with moderate to critical levels of technical debt.[14]

At the same time, excelling in an experience economy mandates an ever-rising commitment to product and service innovation, customer personalization and omnichannel support. Shrinking budgets also make it harder to attract and retain the talent needed to position for the future, especially in areas such as cloud management, AI, data analytics and compliance. According to the Economist Intelligence Unit, falling interest rates in 2025 will benefit borrowers, but erode bank profitability.[15]

Amid this storm, hybrid cloud solutions offer a silver lining. By interlinking vast data stores, hybrid cloud amplifies organizational abilities to create new revenue streams, deepen customer insights and manage costs. And it does so while delivering an unmatched level of security and compliance.

Reaping these rewards, however, means working with a hybrid cloud provider with the experience, know-how and proven credentials to outperform. With 11,000 total technical certifications and deep expertise across public, private and hybrid cloud solutions, Rackspace is uniquely positioned to help financial services companies:

- Systematically tackle technical debt by hosting workloads where they best belong, without needing to rearchitect applications
- Integrate multiple cloud platforms to gain enterprise-wide system transparency, streamline reporting obligations and facilitate common governance
- Manage and operate legacy and mission-critical applications in a way that optimizes security, performance and cost effectiveness
- Enhance operational resiliency and mitigate data loss with disaster recovery and off-site backup
- Securely test AI use cases within organizational networks, at the edge or in a private cloud environment to quickly move from proof of concept to production
- Bridge skills gaps through managed services, working with a team dedicated to delivering measurable returns on investment and creating a Fanatical Experience™

With access to a purpose-built, interoperable and cost-effective hybrid cloud, mid-tier financial services organizations can drive operational resiliency and innovation at scale. The real risk is not in adopting new technologies; it's in failing to get started.

## Did you know?

Rackspace has unparalleled experience keeping mission-critical systems up and running. Using a modern private cloud approach, 99.99% uptime for private cloud based platforms and 100% Network Uptime Guarantee. Making us uniquely qualified to do the same for your financial institution.

14 Forrester, "Manage Tech Debt Urgently To Prevent Tech Bankruptcy," by Biswajeet Mahapatra. September 17, 2024.

15 Economist Intelligence Unit, "Financial services outlook 2025." 2025.

# About Rackspace Technology

Rackspace Technology is a hybrid, multicloud solutions expert. We combine our expertise with the world's leading technologies — across AI, applications, data and security — to deliver end-to-end solutions. We have a proven record of advising customers based on their business challenges, designing solutions that scale, building and managing those solutions, and optimizing returns into the future.

As a global hybrid, multicloud technology services pioneer, we deliver innovative capabilities to help customers build new revenue streams, increase efficiency and create incredible experiences. Named a best place to work, year after year according to Fortune, Forbes and Glassdoor, we attract and develop world-class talent to deliver the best expertise to our customers. Everything we do is wrapped in Fanatical Experience® — our obsession with customer success that drives us to help each customer work faster, smarter and stay ahead of what's next.

Learn more at www.rackspace.com
or call 1-800-961-2888.



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