

NEWS ANALYSIS

Oracle Affirms Its Strategic Role in Banking

Deutsche Bank's Move of Thousands of Oracle Databases to Exadata Cloud@Customer Is an Inflection Point for the Financial Services Industry



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INTRODUCTION

In the era of digital transformation, IT has evolved from being a pure cost factor to a strategic weapon as enterprises strive to stay ahead of their competition by innovating their IT platforms. Data is at the forefront of digital transformation, because moving to a cloud environment enables all relevant next-generation applications of an enterprise—the most prominent ones being analytics, in-house custom development, and AI/ML use cases.

Traditionally, banking's IT strategy has been characterized by both a high level of conservatism and large IT budgets. The combination has led many banks into considerable technical debt as they failed to move off their traditional platforms. And although most banks have adopted client/server and internet architectures, they are only now starting to move their critical applications to cloud infrastructure to ward off competition from cloud-native fintech startups. All eyes in the banking world are now on Australia, where the key local banks are in a multiyear effort to create new core banking applications in the public cloud.

Oracle, as the decades-long market leader in the mission-critical database space, has had a very strong position in the banking industry. The question has been whether Oracle would remain a relevant provider of future cloud-based banking applications. Banking IT leaders have been mulling this over for several years now, which is what makes the decision of a major institution such as Deutsche Bank to partner with Oracle an inflection point for the financial services industry.

WHAT HAPPENED?

DEUTSCHE BANK PARTNERS WITH ORACLE FOR CLOUD

On June 24, 2021, Oracle published¹ a press release announcing that Deutsche Bank, Germany's largest bank and a top 10 bank in Europe (see Figure 1) and a major player globally, had decided to modernize its database technology with Oracle. Specifically, Deutsche Bank has started to upgrade its existing database infrastructure and the bulk of its Oracle Database systems to Oracle Exadata Cloud@Customer. The goal for the bank is to create one dedicated platform for all its

Figure 1. Deutsche Bank Headquarters in Frankfurt, Germany



Source: db.com

mission-critical systems and services including trading, payments processing, risk and capital planning, and regulatory reporting.

Deutsche Bank chose the Oracle Exadata Cloud@Customer offering because it allows the bank to run the Oracle technology stack, including Oracle's landmark database, on-premises as a subscription service managed by Oracle. This is a key reduction in cost and complexity for enterprises, including banks, because it frees them to focus on higher-level services (for instance, a consolidation strategy, determining which application workloads might move to the cloud and which ones should stay on-premises, or developing cloud-based applications), while Oracle is doing what it does best: managing the databases. Moreover, it is an acknowledgment that the Oracle "chip-to-click" strategy is delivering: Evidently, executives at Deutsche Bank realized that Exadata provides the best platform on which to run Oracle Database and recently cited "triple-digit million" in savings from the new implementation.

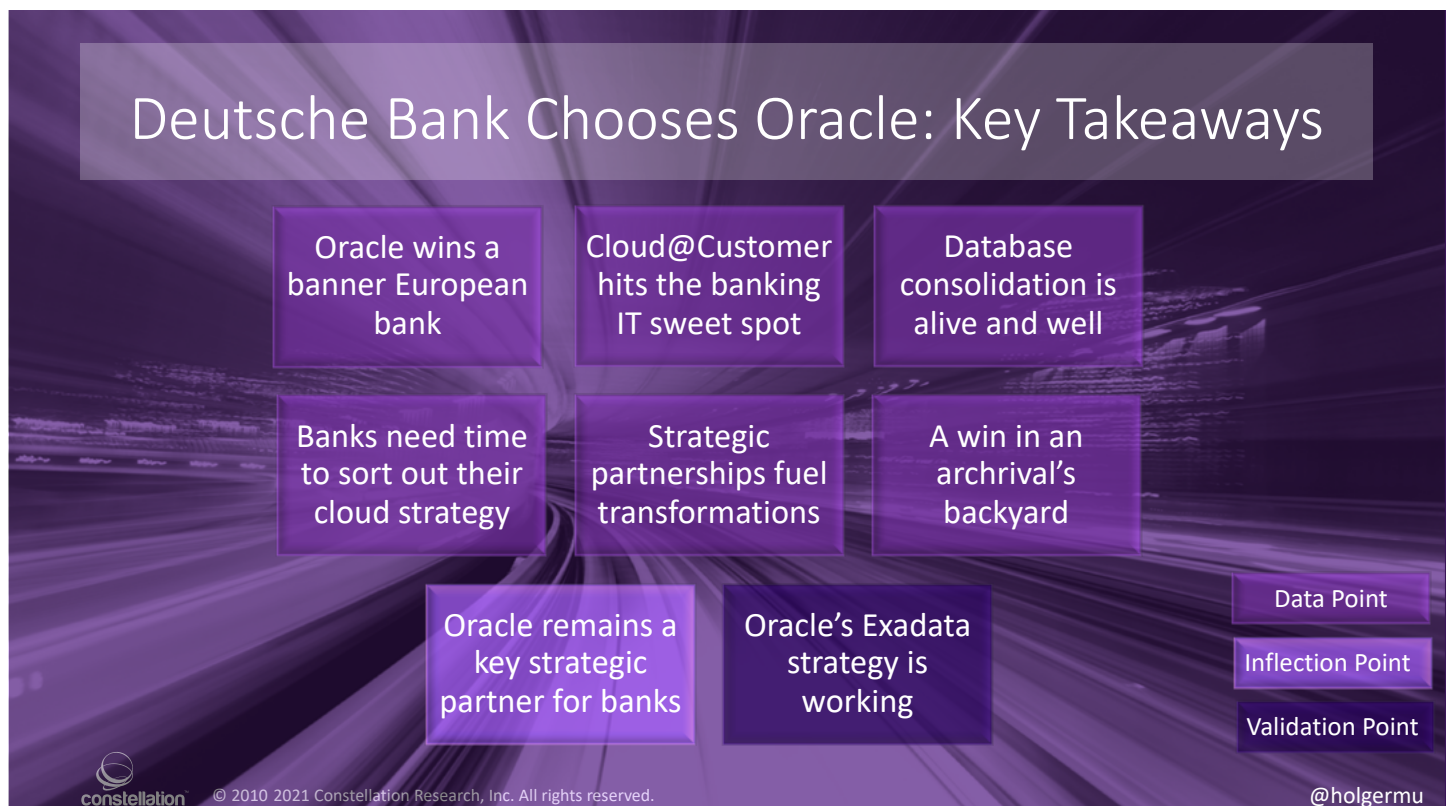
WHY DOES IT MATTER?

ORACLE AFFIRMS ITS STRATEGIC ROLE IN BANKING

Constellation sees the following data, inflection, and validation points from the strategic deal between Deutsche Bank and Oracle (see Figure 2):

- **Data point: Oracle wins a banner European bank for its database and Exadata.**
There are a few banks that take a leadership position in their respective markets, and Deutsche Bank is one for Germany as well as for the rest of Europe and beyond. When leaders make certain IT decisions, competitors will follow, and although not all banks will copy Deutsche Bank's choice, they will certainly consider Oracle as a cloud partner going forward, especially if they are already Oracle Database customers (90% of the 20 top banks are).

Figure 2. The Eight Takeaways From Deutsche Bank's Oracle Choice



Source: Constellation Research

- **Data point: Oracle Exadata Cloud@Customer hits the banking IT sweet spot.** Banks are under cost pressure and need to reinvent their IT infrastructure. The move to the cloud is an attractive strategy, because it allows them to change capex investments into opex. But banks also run strategic and mission-critical applications that often are also highly regulated and need to protect their customers' personal information. Rewriting these takes time, so moving them to a platform that reduces the data management effort and keeps data on-premises hits a sweet spot for the bank's IT team: Focus expensive IT personnel on the key tasks at hand, not the operational ones of the past. The key long-term value for Deutsche Bank, however, is that once a database runs on Oracle Exadata Cloud@Customer, it is easy to move it to Oracle Cloud Infrastructure (OCI), should the bank decide to do so. This flexibility is of upmost value for a bank now.
- **Data point: Database consolidation is alive and well.** Enterprises have consolidated databases on a regular basis for decades, and with Oracle Exadata they can continue this strategy along the same success criteria: lower cost, better performance, better security, and new next-generation application use cases. Oracle Exadata's deployment options among public cloud, at the customer site managed by Oracle, and at the customer site managed by the customer's IT team give banks the long-term flexibility they may want and need. It is likely—although not disclosed—that Deutsche Bank's consolidation benefits “should result in cost savings in the three-digit millions”² and pay for the project over a three- to four-year payback horizon.
- **Data point: Banks need time to sort out their cloud strategy.** As much as a move to the public cloud is desirable and probably even required for banks, this migration cannot happen overnight. A platform such as Oracle Exadata Cloud@Customer, which allows for consolidation of databases (one of the many benefits of Exadata Cloud Service on-premises) and opens later migration options to the public cloud, is a very attractive strategy for banks. This is especially true because they need time to sort out which workload will run there and, even more importantly, what their future applications will be: Many banks are refactoring, rewriting applications, writing new applications from scratch, and implementing SaaS applications.

- **Data point: Strategic partnerships are how to make these transformations happen.** It comes as no surprise that Oracle and Deutsche Bank chose to establish a partnership that has both teams working closely together. It is interesting to note that the scope of the partnership includes security technology, blockchain, AI, and analytics—all key drivers for next-generation applications. Once an enterprise settles for a certain technology stack—in this case Deutsche Bank’s choice of Oracle—it makes sense to embrace it at the fullest at a people level. In the end, it is people who make partnerships and IT happen.
- **Data point: The choice signals a win in an Oracle archrival’s backyard.** Deutsche Bank is from Germany, and so is Oracle’s archrival SAP, which since 2010 has been working on its own database ambition, SAP HANA. Deutsche Bank is an SAP customer, so many of its workloads potentially could run on HANA; today, most of the bank’s SAP workloads still run on Oracle Database. Whether SAP workloads are moving as part of this deal is not clear; regardless, this remains a key win for Oracle in Germany—a difficult market for the company. That the executive quoted in the press release is Deutsche Bank’s Chief Technology, Data, and Innovation Officer Bernd Leukert, himself a former SAP product executive, is another indication of the strength of Oracle’s offering.
- **Inflection point: Oracle remains a key strategic partner for banks.** Oracle has been a strategic platform for banks for decades. But with banks moving to the cloud and Oracle’s cloud strategy only taking off in the last few years, there was a healthy skepticism toward Oracle from banking IT executives. Ironically, Oracle’s strong commitment to running workloads on the same technology stack on-premises as in its cloud is now helping the technology giant, because banks need time to get ready for their move to the public cloud. Banking CIOs are no fools, and they know that even an intermediary step of consolidating Oracle Database workloads on Oracle Exadata Cloud@Customer places them more firmly into the Oracle camp for the long run. The fact that they are taking this step regardless means that they are at least OK with the idea of moving to Oracle Cloud in the not-so-distant future. It is now clearer than ever that Oracle remains a strategic partner for banks for the next decade and beyond.

- **Validation point: Oracle's Exadata strategy is working.** As seen over the last few years, the Oracle Exadata strategy is working. Knowing the inner workings of a sophisticated software product such as Oracle Database gives hardware and cloud platform engineering teams a leg up when designing, building, and optimizing these systems for maximum performance, availability, elasticity, and security. Oracle runs Oracle best—both as infrastructure and as a managed services offering—for a bank, as in the case of Deutsche Bank with Oracle Exadata Cloud@Customer.

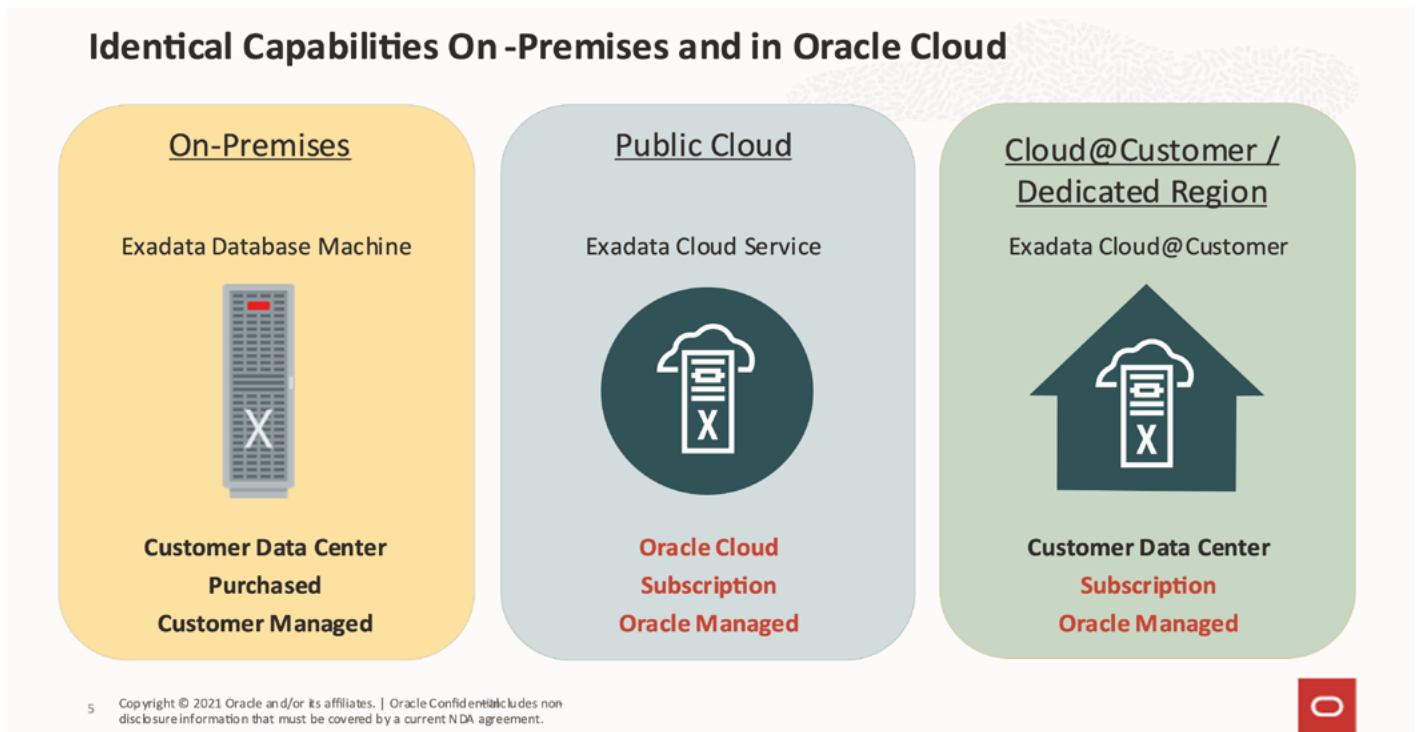
MY POV

Oracle has been working hard for several years to implement its cloud strategy: building a second-generation cloud infrastructure that delivers a wide range of services across 30 data centers around the globe and a complete portfolio of cloud-native SaaS applications. Despite initial mishaps, the vendor has persevered and now has one of the most attractive technology stack offerings for all enterprises, not just banks. At the core of Oracle's technology stack value proposition is the concept of "Identity"³—being able to run the same workloads in OCI as Exadata Cloud Service, and on-premises, either with traditional in-house IT support with Exadata Database Machine or via Oracle Exadata Cloud@Customer, a subscription-based managed cloud service (see Figure 3).

This is a critical capability for CxOs, who know that they need to rearchitect their applications to deliver Enterprise Acceleration.⁴ Along the way, it makes sense to consolidate databases with Oracle Exadata Cloud@Customer, and the ability to seamlessly move workloads to OCI from there, should an enterprise decide to do so, is a welcome bonus.

Finally, Oracle's full-stack technology remains critical for banks and other enterprises going forward—something that was not a guarantee a few years ago. Now, it is up to Oracle to continue the momentum and lead as the vendor to power next-generation computing platforms.

Figure 3. Oracle Exadata Identity Across Deployment Options



Source: Oracle

ENDNOTES

¹ For the press release, see: Oracle, “Deutsche Bank Partners With Oracle to Accelerate Technology Modernization,” June 24, 2021.

² For the saving details, see Stephanie Condon, ZDNet, “Deutsche Bank expects 3-digit millions in cost savings from move to Oracle Cloud@Customer,” July 9, 2021. <https://www.zdnet.com/article/deutsche-bank-expects-3-digit-millions-in-cost-savings-from-move-to-oracle-cloudcustomer/>

³ Mueller refers to “Enterprise Acceleration” as the need for enterprises to move faster and become more agile. For more, see: Holger Mueller, “Why the C-Suite Must Embrace Enterprise Acceleration,” May 2, 2019. <https://www.constellationr.com/research/why-c-suite-must-embrace-enterprise-acceleration>

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Holger Mueller is vice president and principal analyst at Constellation Research, providing guidance for the fundamental enablers of the cloud, IaaS, and PaaS, with forays up the tech stack into big data, analytics, and SaaS. Mueller provides strategy and counsel to key clients, including chief information officers (CIOs), chief technology officers (CTOs), chief product officers (CPOs), investment analysts, venture capitalists, sell-side firms, and technology buyers.

Prior to joining Constellation Research, Mueller was VP of products for NorthgateArinso, a KKR company. He led the transformation of products to the cloud and laid the foundation for new business-process-as-a-service (BPaaS) capabilities. Previously, he was the chief application architect with SAP and was also VP of products for FICO. Before that, he worked for Oracle in various management functions—on both the application development (CRM, Fusion) and business development sides. Mueller started his career with Kiefer & Veitinger, which he helped grow from a startup to Europe's largest CRM vendor from 1995 onward. Mueller has a Diplom-Kaufmann degree from the University of Mannheim, with a focus on information science, marketing, international management, and chemical technology. A native European, Mueller speaks six languages.

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