ANALYST CONNECTION
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Technical debt has gotten a bad rap and deserves to be reexamined as a fact of life to be managed and addressed according to an institution's priorities.

Technical Debt Is a Fact of Life for Financial Institutions, and Not Always a Bad Thing

December 2025

Questions posed by: Red Hat and Accenture

Answers by: Jerry Silva, Program Vice President, IDC Financial Insights

Q. How do you define technical debt in today's world of financial services modernization initiatives?

A. Technical debt is any technology that limits business growth and innovation. Ultimately, it is the role of the institution's IT strategy, including hardware, software, skills, and processes, to overcome those limits through managing technical debt. Some technical debt examples include a platform that slows the development of products and services; technology that consumes an inordinate amount of money, time, or resources that could be allocated to growth; or technology that can't respond quickly enough to safety or regulatory needs. Management of technical debt, and IT's role in it, should be part of the institution's overall growth plans and digital business transformation. However, one can always find some aspect of technology that challenges growth even in the most modern technological environment. The truth is that technology evolves faster than any individual institution could reasonably adopt it. Consider AI: Many institutions won't be able to unlock the full potential of something like generative AI because of the technical debt that exists in their data environment.

It's easy to argue that any organization has — and will always have — technical debt. This doesn't mean that every instance of legacy technology needs to be modernized for the sake of modernization nor does it mean that an assessment and prioritization of modernization isn't necessary. There will always be that next "weakest link" of technical debt that challenges forward momentum. The key is to identify that specific link in the supply chain, from resources to revenue, and eliminate or replace it with something faster, better, or cheaper. What this definition of technical debt also implies is that there will always be a need to continuously refine and improve the IT environment to support growth and innovation.

Q. Is addressing technical debt strictly a technology prerogative?

A. It's not if you consider its impact on speed to market, availability of funds to invest in the business, and digital trust with customers and regulators. Certainly, technical debt is a concern for the CIO and CTO. IT teams need to deal with the impact of new technologies, from the cost of modernization to acquiring the technical staff needed to confidently deploy and run the day-to-day operations. The CIO's role includes maintaining legacy platforms while investigating and deploying new technologies, all while responding to market drivers, competitive pressures, and internal demands from the lines of business (LOBs), risk managers, procurement executives, and the CEO and board.

However, the LOB, COOs, and others (CRO, CFO, etc.) are directly impacted by technical debt more than any other area. I would expand the definition of business to include the security, risk, and compliance functions of an institution, which protect privacy or ensure resilience. Innovation isn't always tied to a new banking or insurance product. Sometimes, it's about enhancing the institution's security posture or withstanding market disruptions that would otherwise impact the customer, as well as reducing the impact on the institution itself.

Q. What areas of technology should the institution consider when addressing technical debt?

A. There isn't an area at the financial organization that is safe from being called technical debt. Institutions must consider their infrastructure, data, workloads and applications, and the business and IT processes that keep their operations running as possessing technical debt. Some technical debt is easily identified as it affects day-to-day operations (e.g., fraud detection or origination systems that affect the institution daily).

At its most foundational, there is the infrastructure. Then there is the question of the institution's data. There are also the workloads and applications to consider. Next in the supply chain are the business and IT processes that keep the organization's operations running. Even AI can be considered technical debt if these platforms were deployed during the early days of the technology. At deeper levels, there are aspects of technical debt "hidden" in IT processes, data, or the IT organization itself. Is the institution managing the evolution of workforce skills and styles of working in the age of AI?

Consideration must also be given to the table stakes that are unique to financial services. These are platforms, processes, and data that manage security, data privacy, risk management, compliance, resilience, and scale. It can be argued that the financial institution's primary product is not a checking account or insurance policy, but trust and stewardship. This context puts tremendous pressure on the need to closely identify, address, and manage technical debt to ensure safe and trusted operations through modernization where needed most. However, some of these areas of technical debt — when properly managed — can be beneficial to the organization by preventing potential risks that may come from an unnecessary transformation. Core banking systems, for example, may be incredibly stable in terms of reliability, performance, and scale but require some overlay (using APIs, for example) to overcome the otherwise slow development times needed for new product development.

Q. What's the cost of a "do-nothing" scenario?

A. I would classify this into two main cost categories. There are the direct costs or "hidden leakages" of time, money, and productivity that stem from legacy technologies embedded in business or IT processes for years. Then there are the known weaknesses that weren't addressed for a number of reasons such as lack of budget or the risk of transformation.

Whether hidden or visible, those sources affect three fundamental costs that institutions will bear if they don't address technical debt. As the infrastructure and business functions become more complex over time, the operating costs of the institution will continue to rise, sometimes out of control if they remain hidden, until a crisis point is reached. This will invariably lead to a disruptive shift when the organization tries to alleviate those costs. That same complexity increases risks across the operation, from resilience to scale, security, and regulatory compliance. Finally, the cost of doing nothing include the inability to respond to market changes and opportunities. The lack of innovative capabilities is arguably the largest cost that will hurt the business in the long term.

Q. What guidance do you offer to financial institutions that are concerned about technical debt?

A. The first step is always education, by which I mean identifying what constitutes technical debt for any specific institution. Often, there is no central or organized view of tech debt at an institution or the CIO is charged with dealing with the problem and given little input from the business. This creates an unambiguous taxonomy of what constitutes technical debt within that specific institution.

Second, institutions have to identify and prioritize the "next" technological weak link that inhibits business growth. It is important for institutions to understand the importance of identifying and prioritizing technology transformation based on business strategy as well as digital trust and stewardship. Some technical debt, managed properly, supports the foundation of security, risk, and compliance.

Next, management of technical debt must be an ongoing practice. Institutions should consider a separate function within the IT group that maintains and curates a "technical debt library" that can be accessed by IT and internal business partners. In this way, the organization always has a clear view of risks and costs associated with transformation and can align them with a strategic business objective of balancing efficiency, trust, and innovation.

Last, institutions must work with their technology partners to move forward. Architectures and infrastructures are getting more complex as the drive to AI and the associated focus on data consumes more investment. Very few institutions have the staff — in both numbers and skill sets — to "solve" the technical debt problem without help from partners. Institutions should ask their technology providers, preferably those that have worked with other financial institutions, to create a strategy and path that addresses technical debt. There is nothing more compelling than working with a partner that has credibility in the industry.

About the Analyst

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Jerry Silva is program vice president for IDC Financial Insights leading the global financial services research programs across banking, insurance, and capital markets. He draws on 40+ years of experience in the financial services industry covering a variety of topics, from digital infrastructures to AI, data management, and IT governance.

MESSAGE FROM THE SPONSOR

As Financial Services organizations race to adopt AI and accelerate transformation, tech debt is becoming a hidden disruptor. Often viewed as just an IT problem, it's now a board-level concern that stifles innovation and consumes a significant portion of the annual IT budget.

Some technical debt can be strategic. Together, **Accenture and Red Hat** help CIOs reframe this challenge, moving from firefighting to a more strategic approach. Our joint expertise assists organizations in systematically diagnosing and prioritizing debt, while our four-pronged strategy turns remediation into a proactive lever for innovation.

We help you uncover hidden liabilities, link debt to specific business challenges, and build a strategic roadmap that turns tech debt into a competitive advantage, unlocking trapped value, accelerating AI adoption, and building resilience for the future.

Contact us today to turn your technical debt into a strategic asset:

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