

CLOUD AND DIGITAL TRANSFORMATION



The last decade has seen a significant change in the way banks deliver services to customers. What with emerging technology trends, ubiquity of Smartphones, and tech savvy Millennials, customers have also become discerning and demanding. Convenience, context and speed define the way customers interact with their banks. The entry of fintechs, Big Techs and telecom companies into financial services has led to competition, partnerships and most of all, innovation. Most

talked about are firms in China that use WeChat applications to deliver banking services, and telecom operators in Africa leading the way in mobile money and payments, loans and insurance. Needless to say, traditional banks see tremendous opportunities and are now trying to stay on top of the game by delivering services aligned with the new consumption patterns of their customers. Prime on their minds is a need to revisit banking models and organizational culture to regain customer trust and bolster productivity.

Many banks are turning to the cloud, employing it as a business asset to transform their companies and reshape their operating models, products, services and end customer experience. In fact, cloud is fast becoming a foundational element for digital-driven change. Bringing in agility, faster response times, scalability and flexibility, cloud hosted software and infrastructure are gaining acceptance and momentum. The demonetization drive in India in 2016 resulted in high currency notes being withdrawn

from circulation without any prior intimation. Overnight, the country saw a manifold increase in the number of digital transactions/ users, and the introduction of new innovative methods for payments, most of them outside the traditional space of banks and financial institutions. Banks immediately acted on this pressure and began looking for ways to offer instantaneous payments as well as by scaling up their infrastructure to meet the spurt in volumes.

In the days to come, the key differentiator will be how good is your infrastructure and ecosystem in terms of its ability to add new partners, fintechs or even competitors.

Some of the key factors driving digital and cloud adoption are:

Open Banking: By providing open access to application services and data to an ecosystem of vendors and partners, new entrants to banking are creating fresh revenue streams. Coupled with regulatory demands placed by the EU's Payment Services Directive 2 (PSD2) and Access to Accounts (XS2A), banks will have to rethink their conventional operating models – opening up capabilities and assets to deliver hyper responsive customer-centric solutions. They need to explore cloud and Open Banking solutions which will allow them to harness the power of Application Programming Interfaces (APIs) and microservices. In turn, it will help them transition to an Open digital platform. Successfully deploying this platform can help banks evolve from a peripheral entity to a mainstream powerbroker.

Access to new technologies: Cloud is now fast becoming a vehicle

for innovation and bringing in a level playing field in the financial services industry. It is enabling large ecosystems of players to interact and work with expensive technologies like Machine Learning and AI. Cloud is now being leveraged for more than cost savings and to enable new business opportunities such as the delivery of APIs, bringing in more revenues.

Responsiveness: Technological advances in Internet and mobile technologies has facilitated fintechs and Big Techs to innovate and offer alternate delivery channels to the customer; for e.g. the use of Apple Pay, Samsung Pay. Ushering in speed in customer service and heralding the motto of convenience, these new entrants are now collaborating with banks, as the latter broaden their ecosystems. With response times becoming critical for banks, they need to be able to scale their infrastructure up or down almost instantaneously without worrying about lead times for procurement. The focus in most instances is to shorten implementation time, respond faster, reduce costs, improve engagement and make banking easier.

Small and Community Banks: Banks that did not have the wherewithal to adopt digital banking in its true sense especially in setting up new and sometimes large infrastructure now find that they can jump into the fray at a fraction of the cost and without heavy capital investments, thanks to cloud solutions. On top of all this, they get the flexibility to add resources as they grow. They do not have to worry about IT operations and maintenance, thereby freeing up resources for their core activities. With the interoperability that the cloud

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offers, smaller banks can choose best-of-breed solutions tailored to their needs. This places them in a unique position to serve their customers better and take on the larger banks in digital customer engagement.

Costs: With cloud-based offerings, investments move from a capex to an opex model. Banks are not encumbered with the costs of procurement of hardware and software licenses and need not lose sleep over upgrades and the fear of obsolescence. In the cloud, a bank pays the service provider on a periodic basis and signs up for a specific duration. The onus of refreshing and upgrading the infrastructure and the applications is on the respective service provider.

Security and Compliance: Data security is of prime importance at a bank. It deploys and demands stringent safety measures from suppliers and has to ensure that new applications meet the latest and most rigorous security standards. With new and emerging threats, this is a continuous activity making the case for cloud solutions that offer various IT security levels, such as identity and access management. With certifications such as SOC-2, COBIT and more, cloud solution providers can help banks comply with security regulations. These standards enforce appropriate security controls during the development, including checks on access, vulnerability, compliance verification and penetration testing.

Reliability and Availability: High availability is, ultimately, the holy grail of the cloud. It embodies the idea of anywhere and anytime access to services, tools and data

and is the enabler of a vision of the future with companies with no physical offices, or of global companies with completely integrated and unified IT systems. The need for software and data to be available 24*7 is critical. Even if a data center goes down for some reason, banking operations need to commence from a remote data center. Availability is also related to reliability; a service that is on 24x7 but goes offline often is useless.

Regulations: Financial regulators globally have begun to recognize the appropriateness of leveraging the cloud as long as mandates and compliance obligations are met, including those related to data protection and integrity, resilience and auditing. In addition, a decade-long maturing of cloud services, along with the active engagement of many regulatory and security experts, have produced an abundance of guidance for cloud implementations, including best practices around due diligence, risk assessments, compliance and continuous monitoring. The PRA, the British regulator has issued guidelines with respect to outsourcing to the cloud and other third party IT services.

While there is increased adoption of the public cloud, many banks have also not been able to completely overcome these challenges due to concerns around security, latency and high availability requirements for business critical applications. However, hybrid cloud application use cases are being increasingly accepted as a holistic approach to enable scale and cost-effectiveness along with superior data security and control.

Today banks are being looked at by the customers as one-stop

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solutions for all their financial services needs. Apart from providing normal banking services, the bank is expected to offer investment ideas, help a customer buy insurance, pay bills and provide PFM services, just to name a few. The core competency of banks is in offering financial solutions to its customers and not in competing on technology with fintech companies. Consequently, banks are partnering with these companies to offer innovative solutions to their customers.

The financial services industry is now witnessing rapid strides made in the areas such as Artificial Intelligence, Natural Language Processing, Big Data analytics, and IOT. These technologies lend themselves to the cloud and exploit it for its elasticity, the ability to process huge chunks of data in a short time, or edge computing that reduces the amount of data that is transferred, and API's to gather data from diverse sources. While most of the use cases are around delivering superior customer experiences, the real power of these technologies will be when the banks use them in the areas related to their core business operations; for instance, in AML and compliance, lending, fraud or risk management.

As we move forward, some of the factors which we expect to play out in the industry are:

1. Personalization at a transaction level rather than at the customer level – much similar to what Amazon does today for its customers
2. Customers will expect exponential value at the cheapest price and at the shortest possible time. Banks may not be able to deliver all services on their own and therefore they will have to create and nurture ecosystems that in turn can compete against each other. This would mean tying up with partners, fintechs to offer a complete solution.
3. Approach to risks – All along, institutions have been trying to minimize risks, but moving forward, they will court and embrace risks using cognitive technologies and gain a competitive advantage.

And, the only way, we believe that all of this can happen is if institutions look for solutions that are designed to leverage the scale and efficiencies of the cloud.

References

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