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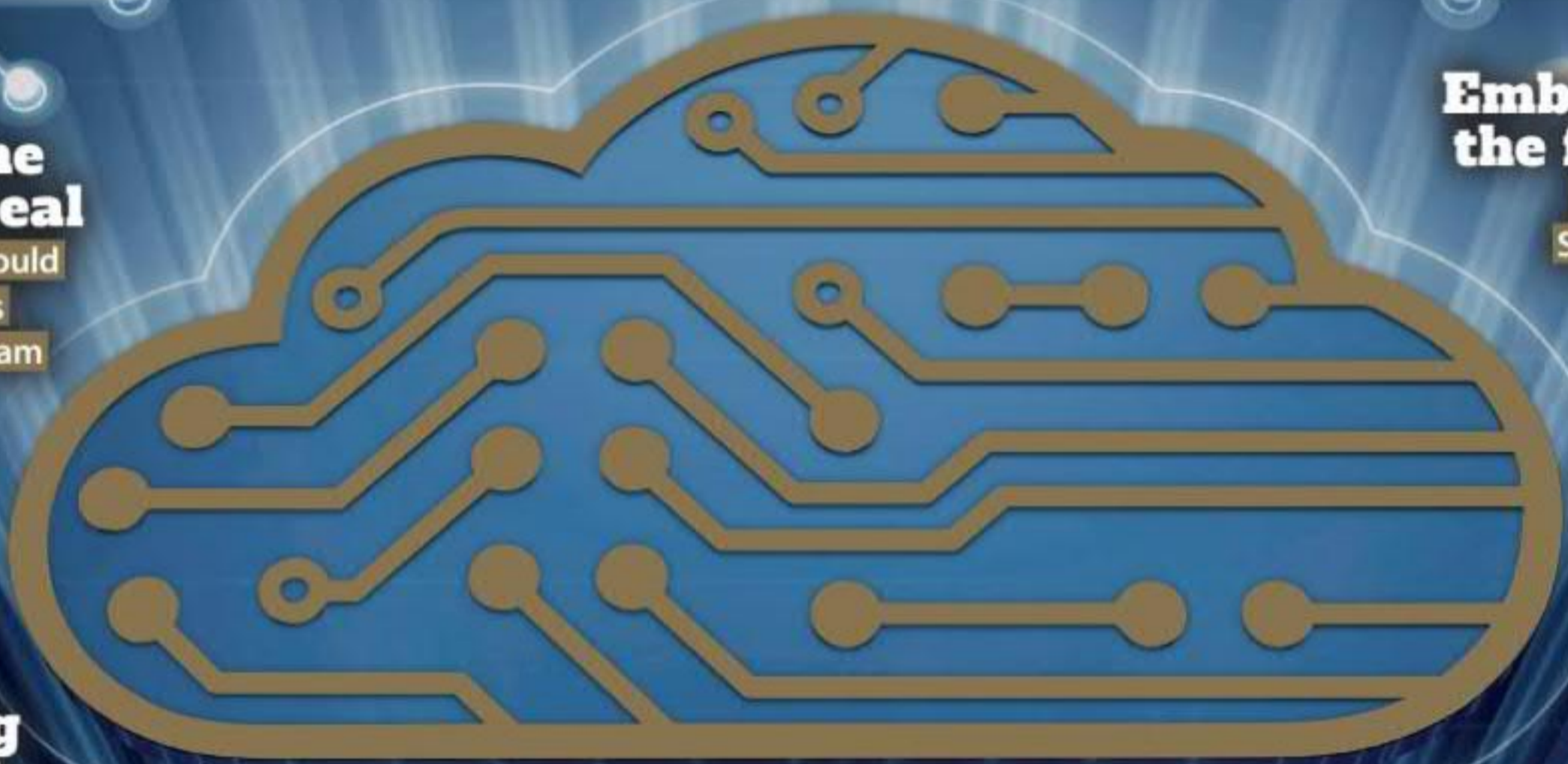
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Up, up and away?

The adoption of Cloud technology was accelerated during the pandemic, but some institutions are still cautious about further implementation. **Jason Ang**, **SmartStream**'s Product Manager for Transaction Lifecycle Management Collateral Management, addresses their concerns head on

The Sibos 2021 virtual conference takes an in-depth look at how the industry can emerge from the disruption of the past year stronger than ever by exploring four connected themes: digital acceleration, managing risk, transformative technology and banking on change. And if there is one technology that speaks to all of those, it's Cloud.

Adoption of Cloud technology rocketed during the pandemic. Microsoft CEO Satya Nadella is reported as saying the company saw two years of digital transformation in two months as its customers moved to Cloud-hosted solutions. The catalyst in financial services was the need to preserve critical functions amidst a dramatic shift to homeworking during successive lockdowns.

Cloud went from being a potential future option that many institutions remained sceptical of, to an absolute necessity for preserving competitiveness in an increasingly challenging marketplace.

A number of major players were bellwethers of the sudden sea change, including HSBC, which reached a strategic Cloud agreement with Amazon Web Services (AWS), Deutsche Bank with its announcement of a 10-year partnership with Google Cloud, and Santander's decision to migrate more than 200 of its servers into the Cloud on a daily basis this year as part of a transformation it plans to complete by 2023.

Cloud solutions provide the flexibility required to support the blended home and office working – and international collaboration across workforces – that became a feature for many firms in the immediate aftermath of the pandemic, and which now look set to stay. According to PwC, 40 per cent of financial services companies have 60 per cent or more of their employees now operating from home at least once per week, compared to 29 per cent immediately prior to COVID-19.

Cloud enables such anywhere, any-time continuity, ensuring services are maintained, no matter what. It took a crisis for the technology to be trusted to deliver on that promise, though: an Association for Financial Markets in Europe and PwC survey discovered that 2020 saw a 30 per cent rise in Cloud adoption compared to 2018, with Gartner predicting an 18 per cent rise in companies' spend on Cloud solutions in 2021 alone.

Now they've made the leap, organisations are turning their attention to optimising the potential of the Cloud, while keeping a close eye on their security and regulatory compliance.

One organisation at the heart of that journey is transaction management technology specialist and Sibos sponsor, SmartStream, whose customers include more than 70 of the world's top 100 banks. It made its own commitment to the Cloud two years ago and has mentored many of its clients through the process of transition.

We spoke to Jason Ang, SmartStream product manager for transaction lifecycle management (TLM) collateral management, about the opportunities

The wisdom of the Cloud: A crisis accelerated adoption, but the case had already been made

> " The idea of handing over control to an outside provider is sometimes scary for a financial institution. Forced upgrades are a particular concern when those institutions are stringently regulated

that lie ahead in the Cloud, why some institutions remain unconvinced despite the unprecedented wave of adoption, and how those that do adopt a Cloud-based strategy can ensure they do it right.

A former senior executive with Deutsche Bank, Ang has been on the inside of some of those decision-making processes and understands institutions' concerns. As he tells us here, he's now also convinced of the advantages of Cloud-based services.

"SmartStream created Cloud-based, on-demand services because we know there are some key value propositions that are attractive to our clients.

"In terms of cost, it enables a mutualisation of personnel and hardware, which means that instead of each organisation having staff assigned to a particular hardware or software, we maintain it for them. This controls the cost and allows us to provide a very compelling use case. Internal hardware can also be very expensive for firms to maintain themselves, given current datacentre structures.

"Then there is the question of expertise. Rather than having one or two people within an organisation understanding our software, we have a full team that knows how best to run and develop it, so our clients can rely on us to take care of that for them. »

» "The third benefit is scalability. Organisations can increase or decrease their capacity as needed, without having to physically add more machines, and only pay for what they use.

"While scalability is a (much-talked-about) key performance indicator (KPI), I wouldn't say it's always the principle one. It depends on the organisation. For some, it absolutely is, others may not be looking to scale dramatically but just want a turnkey solution so they can focus on their business rather than having a team that's trying to maintain this kind of software. Whether an organisation is looking to scale or not, though, it still needs expertise, quality and stability within its Cloud systems while controlling the costs."

A SAFE CLOUD PATHWAY

So, given the upsides, what's still holding some businesses back from going further with Cloud adoption? There are several, understandable reasons why financial organisations might be wary of stepping into a Cloud-based environment, says Ang. And he understands their concerns.

"Security is paramount in people's minds, especially the risk of penetration by hackers or other unscrupulous players. That's why SmartStream chooses the best partners to work with: the likes of AWS and Azure spend billions on making sure their environments are secure – way more than any one client's individual security budget.

"The other aspect of security that might concern them is the comingling of data. A lot of Cloud services organisations pool all their clients' data into one single system and the fear there, especially among larger organisations, is of data breaches or leaks. Where data is comingled but logically separated, a simple error in coding, for example, could result in a data breach. This is why SmartStream uses single-tenant, virtual private Clouds for each client.

"Then we come to the issue of control. The idea of handing over control to an outside provider is sometimes scary for a financial institution. Forced upgrades are a particular concern when those institutions are stringently regulated. If a Cloud-hosted application forces them to upgrade, they may not have enough time to do all the connectivity and integration tests they wish to, and that's too much risk for some institutions to be comfortable with. If they don't have enough time to test,

that has an impact on quality, too. So, SmartStream doesn't force clients to upgrade. Instead, it works with its partners to their schedules.

"Another risk is in not knowing the financial wellbeing and skills resource of their technology partner, and the related fear among financial institutions is of downtime that's out of their control."

On that score, SmartStream's 40-plus years of experience in providing uninterrupted services for critical processes, in the most testing conditions, for blue-chip clients, coupled with a trophy case of awards, inspires confidence.

> " Cloud providers like AWS and Azure have teams upon teams of experts and SmartStream's use cases are created with them as trusted partners because we want to build a better environment, with the best people, for our clients

"Those are some of the reasons why businesses are wary about moving operations to the Cloud," says Ang. "But, as you see, SmartStream mitigates those risks and many, many clients are moving to our on-demand service as a result."

Having helped organisations cope with the strains caused by the pandemic, does Ang believe Cloud technology will make the industry more resilient against future shocks?

"That depends on how the Cloud

technology is administered. It's true that a lot of benefits were realised during the pandemic because the people who have been administrating and running Cloud-based systems are used to what the crisis forced traditional organisations to do, which is to basically run their businesses remotely. On top of that, volumes sky-rocketed in some cases, which is where people began to see the advantage of scalability in the Cloud, and being able to add capacity without any issues arising from that. There's no doubt that really helped some of SmartStream's clients to manage the pandemic better.

"In terms of the future, that depends on the execution and risk tolerance of the organisation involved. Cloud providers like AWS and Azure have teams upon teams of experts in their organisations and SmartStream's use cases are created with them as trusted partners because we want to build a better environment, with the best people, for our clients.

"Each organisation has unique needs, and we make sure we drive our solutions to help them. To do that, we bring a lot of collective expertise and experience to the table, not just in terms of technology, but also in being able to collaborate with, and have good relationships with, clients. In collateral management, we've decades-long partnerships with some clients, and so we've established a deep level of trust. And, because we have such a large set of clients, we can implement best of breed. So, all our clients benefit from this collaboration.

"I'm currently looking at data holistically, across organisations, for instance. What do people use our data for and how can we use data to help enhance our own processes and those of our clients? There are questions around liquidity and the best use of assets across an organisation, providing data through APIs to downstream and upstream systems to determine pre-trade or post-trade optimisation. And then looking to surface these insights by having the data in a location where organisations can then use Cloud capabilities to scale up AI, giving them insights into cross-organisational data.

"Because SmartStream has a very powerful innovations lab that is driving AI through our solutions, the latter is one of the things we're really looking forward to working on."