

## Technology : The Cloud : Heather McKenzie

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### Cloud comes of age.

*Heather McKenzie looks at how Covid-19 is reshaping investment into cloud technology.*

Cloud technology has been on the investment bank agenda for some time but the fallout from the pandemic and remote working pushed it right to the top. It is no longer based simply on cost efficiencies but also to foster creativity and flexibility.

This is reflected in a survey published by AFME and PwC in November 2020, *Technology and Innovation in Europe's Capital Markets*. It showed that cloud adoption has "advanced significantly", with 63% of banks embracing the technology compared with 33% in 2018.

Respondents were more positive about the technology across the investment bank value chain than at the time of the previous survey in 2018, with the greatest change recorded in front office trading as well as finance and treasury.

"Cloud computing is now viewed as a foundational component for investment banks' technology transformation," states the survey. "For the next two to three years cloud computing business cases need to be built on innovation and agility-enablement, rather than just cost reduction."

The survey found the changes to working practices wrought by pandemic lockdowns have raised awareness of the benefits of new technologies, such as cloud-based collaboration tools, and their resilience benefits. Banks were able to rapidly shift to remote working and deal with significant market volatility and trading volumes with minimal impact on their operations.

Eklove Mohan, senior director, technology at New York-based technology company Synechron, says during the pandemic companies faced limited choices and were “effectively pushed into implementing cloud within the workplace. With people having to work from home, the only way to keep businesses running was to ensure everyone could connect to the virtual office. This has led to ‘desktop as a service’ becoming the new normal for many firms in the industry.”



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Michael Tae, head of strategy at Broadridge Financial Solutions, says while increasing cloud adoption was an existing trend pre-pandemic, the pace has stepped up. “Firms moved to a world of remote access and those using cloud-based services were better prepared to handle the demands of operational resiliency and business continuity. Those that were not, were forced to rapidly migrate to the cloud.”

However, the advent of a more distributed workforce has introduced challenges for operational controls and security, which firms will need to address to ensure compliance and integrity, according to Trevor Belstead, CIO for wholesale banking and post trade at consultancy and managed services provider Delta Capital. “The bigger question is, do these firms have the capability to accelerate cloud adoption while at the same time addressing expansive and intrusive regulations?” he adds.

### **Crunching the numbers**

The AFME/PwC survey also casts some doubts on firms’ abilities to implement cloud, despite the willingness to do so. One AFME member told researchers that, “everything” is looked at in terms of short-term return on investment, with cost reduction as the main driver of technology projects. “Very few of our initiatives are focused on increasing revenue, and innovation includes ‘regulatory defence’ work,” the member said.

According to the survey, new initiatives often need to demonstrate in-year efficiency savings, as a minimum expectation, due to the continued focus on reducing costs. Business cases therefore need to be

increasingly quantifiable on the gains and have senior executive or board support.

Strategic projects with longer term returns, such as replacing legacy platforms with cloud solutions, are increasingly difficult to fund compared with projects that deliver much lower benefits but within a much shorter timeframe of a year, says the survey. This is particularly problematic for investment banks with less sustainable cost-to-income ratios where budgets are more tightly controlled.



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The survey also identified a widening in the gap between investment banks that can increase technology spend and those that remain constrained with high cost-to-income ratios. For example, those that invested early in improving regulatory reporting and data processing capabilities are now able to realise further efficiencies such as saving time to develop reports and higher data quality. By contrast, those that didn't, continue to face challenges, including the collating and processing of data.



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Tara Winters, head of global managed services, capital markets at FIS, says in the wake of the pandemic, buy-side firms have changed how they plan to compete. "With the pandemic highlighting the risks of firm-owned technology and infrastructure, managed services and cloud have become the most important long-term way companies are preparing for the new normal," she says.



She adds, "Our recent Readiness research found that 54% of buy-side firms see greater use of the cloud as a priority, followed by long-term remote working and a reduced physical footprint at 45%."

The cloud has made it possible for the majority of staff to work remotely with no business interruption, she says, adding, "Firms have started to embrace remote work as a long-term strategy not only to reduce costs but also to increase employee productivity and attract and retain talent."

A November 2020 DTCC white paper, *Cloud Technology, Powerful and Evolving*, suggests that the initial enthusiasm for large-scale transitions of entire application portfolios to the public cloud has given way to a deeper consideration of the specific requirements for individual business solutions. Among the points in question, says DTCC, are the state and cost of the existing solution supporting the business service, the appropriateness for business purposes, the maintenance of data security and privacy in accordance with relevant laws and the ability of the cloud to support business clients' resiliency and performance demands.

### **Onwards and upwards**

Going forward, the move towards cloud computing is inexorable. Peter Hainz, global head of product for cloud and managed services at SmartStream, says the company has received more requests for cloud-based solutions. "For years, some banks have been hesitant to go to the cloud," he adds. "But with the need for workers to securely access infrastructure remotely and the need for more cost saving, interest in cloud is growing."



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A coming trend, he adds, is serverless computing. Under the model, the cloud service provider completely provisions and manages any server and provides event-driven scaling along with high availability. "This will enable firms to scale their infrastructure automatically, accelerating time to market and providing significant cost savings".

Broadridge's Tae says the pandemic advanced the move towards API-driven services, which has allowed buy-side firms to assemble and integrate best of breed services. To address limitations of their current risk platform, for example, an asset manager could use a software as a service-based risk offering that supports newer risk models, which could be integrated using APIs into existing systems.

"The cloud is a key enabler of this trend, particularly as it relates to data and accessibility – aggregating data from across disparate systems into a cloud data warehouse enables rapid deployment of new cloud-based API-driven services," he adds.



Jakob Hojland, director, cloud services at SimCorp, believes the importance of cloud will increase "dramatically" for companies. "Until now, the responsibility of cloud has been centred on group IT and technology; it has now transformed from an operational discussion, to a business enabling function. The cloud will be a catalyst for businesses, streamlining their focus so that operations that sit around alpha generation, can be trusted to cloud service providers."

Mohan points out that although the pandemic has created "tremendous uncertainty", organisations that have adapted to new strategies have increased their risk-taking capabilities which means an increased resilience and level of future-proofing for potential long-term hazards.

"Cloud technology has been an important metric in new strategic business manoeuvres – it is preferable to pivot to a cloud strategy, mitigating any potential risk than to fall by the wayside," he adds. "In a post-Covid-19 world, firms are unlikely to regret cloud migration strategies and we see this as a bright spot in a tumultuous year."