

# Build a bridge to the cloud

The cloud is becoming a key enabler of banks' digital transformation initiatives as they move away from on-premise data centres to control costs and build agility into their service offerings. At SmartStream, cloud-enabled solutions are the norm and they are the basis for its rapidly growing managed services division. Jim Banks looks at what is fuelling that growth and how the company is developing its managed services offering.

**F**inancial transaction life cycle management solutions provider SmartStream exists to support financial institutions, and their treasuries and key stakeholders with the delivery of real-time, AI-enabled and cloud-based post-trade processing solutions across the full financial transaction life cycle. Its value proposition relies on cloud-native solutions, which its management foresaw would be vital for the banking industry.

In an increasingly competitive market, large banks are looking to become agile and move away from their legacy core banking systems to compete with the many fintechs and challenger banks that are unencumbered by such monolithic systems. Furthermore, they are trying to cut back on the cost of running their own data centres to become, in one big transformative leap, more flexible and more efficient. Hence the move towards public, private and hybrid cloud infrastructure.

From there, it is a short step to hand over key processes to a trusted partner to run on their own technology stack. The cloud is inevitable and it is the vital stepping stone towards signing up to a more comprehensive managed services offering.

"I go to a bank and it will be expressing an interest in managed services because it is trying to get away from running its own data centres," says Nick Smith, SmartStream's executive vice-president of managed services. "Or it may know that the servers it is using are approaching end of life and it is wondering why it should replace them when the cloud is out there. Cloud gives scalability and is cost-effective, so everyone is jumping on board."

"In our managed services division, we can provide better BPO because it is based on our solutions, on more automation and AI," adds Andreas Burner, chief innovation officer at SmartStream. "It is a real success story for the managed services team and the solutions in the portfolio. The wheels started spinning two years ago, and more and more banks are being onboarded

now. Benchmarks show how we could improve the business of big banks with Nick's team, which gives them a lot of trust."

## Cloud-based and cost-effective

SmartStream's managed services brings many of its market-leading solutions to its banking customers in a scalable, reliable, secure and cost-effective way. A key element of that portfolio is SmartStream AIR, the company's AI-enabled reconciliation platform, which can match any structured or unstructured data sets in seconds rather than weeks.

A relatively new feature to join the managed services cloud family is Affinity, an observational learning solution driven by ML, which can improve operational data management and data quality by learning how individual users work with the portfolio of solutions and automate the optimisation of their workflow.

Alongside powerful, cloud-enabled tools for reconciliations, corporate actions processing, collateral management, cash and liquidity management, fees and expense management, and reference data, clients can also access the data lake functionality.

Data lakes act as centralised repositories in which clients can store their structured and unstructured data. Once that data has been gathered, banks can mine it to enable enhanced regulatory reporting and gain deeper insights from the vast volume of data they collect during processes such as reconciliation.

Having these data lakes as part of the managed services portfolio allows clients to ramp up the use of the company's comprehensive suite of cloud-based solutions to handle any kind of query or reporting requirement without any additional configuration.

"All products, the latest addition being cash management, sit in managed services and we have clients up and running for all of them," Smith explains, noting that the company was an early adopter of cloud services way back in 2006.

TLM Aurora is SmartStream's digital payments reconciliation platform, formerly known as Corona. It provides the next generation of operation control for the digital marketplace. It supports Swift and SEPA transfers, mobile, cash and card payments, digital currencies, settlements and reconciliations, and is capable of helping small organisations and large banks.

"We are building all this software to be cloud-native, and more and more people are moving to the cloud," says Roland Brandli, strategic product manager for TLM Aurora. "We will be able to eliminate the database completely. Aurora is fully containerised, so it fits into the deployment model of cloud and we can set up the environment in minutes."

Similar benefits accrue for the fees and expense management solution (FEMs), overseen by managing director of global utilities Peter Morris. "The greatest benefit of managed services is that it can take on everything, set it up and have all the data in place to calculate what is being done and to check the accuracy against bills from external sources," Morris says. "And time to market is faster. Our systems don't intrude on a client's operation – we just go in and get the data. We fill a big skills gap in the market. Managed services is more meaningful for FEMs than even reconciliation."

The incorporation of more solutions into its portfolio has fuelled stellar growth in that part of SmartStream.

"The managed services business has grown by 25% in terms of revenue this year, and that is consistent with a growth rate of between 25% and 35% for the last five years," Morris adds. "But there is so much more potential. We are engaging with many different clients from big retail banks to tiny little hedge funds, and another Tier 1 bank went live three months ago. Managed services is growing faster than SmartStream as a whole, so that is where the real growth is."

## Safe and sound

A key factor in the growth of managed services – and the adoption of cloud services in general – has been a fundamental shift in mindset regarding a crucial issue that banks have struggled in the past: security.

A major hurdle to adoption in the earliest days of the cloud was the perceived risk of handing over volumes of sensitive data to a third party, due to concerns about the service provider keeping its own systems secure. Now, banks have been persuaded that the cloud – operated by the likes of Amazon Web Service (AWS), Google Cloud and Microsoft Azure – is as secure, or more, than private cloud or data centre infrastructure.

"Information security was always a top priority for our clients and it is still a major topic," notes Smith. "Security questionnaires are getting longer – they used to have 300 questions but are now more likely to have 1,000 questions... As banks are putting more into the cloud, they are starting to do more annual audits."

"The public cloud is still a more secure environment than a bank's own on-premise data centre, because public cloud service providers invest in security on a much larger scale than an individual bank. I work with the big three cloud providers, so I benefit from their investment in security, which remains a big focus for the financial services industry."

This shift comes at an interesting time, given the pandemic has seen spikes in cyberattacks on corporate entities. Reported attacks in 2020 rose by 69% over the previous year, according to the FBI, while a recent study by McAfee found almost 3.1 million external attacks on cloud user accounts during the year.

While the risk of cyberattacks may be greater, partly due to remote working, cloud service providers have upped security measures and SmartStream has been developing tools to respond to security reviews. It also achieved the highest level of Payment Card Industry Data Security Standard (PCI-DSS) certification.

"There are changing attitudes towards the cloud and we offer our clients a dedicated environment, rather than a multi-tenant one, so they are not sharing the infrastructure with anyone else," says Morris. "We offer the highest level of security. AWS is our main partner, though we use some Azure, too, and part of our regulatory compliance process is to give banks a clear line of sight with third parties to prove that they have some control over that relationship."

"The security part is very important," he adds. "Clients want penetration testing and everything else to ensure security, and we are helping clients show the due diligence process to regulators."

## Build a better business proposition

Cost, scalability, security, speed and service are all key components in SmartStream's managed service, but it addresses other pressing issues for banks.

"Banks may want to reduce concentration risk of having the processes in one centre and managed services helps them to do that," says Morris. "It exits them from worrying about data centres and technical support because we are running the technology."

"When you walk down the high street, you see lots of jobs being offered because there is a global labour shortage, and we are seeing huge pay rises in India, for example, for people to move to new jobs," adds Smith. "Some big banks are even offering signing bonuses for graduates. For me, that means labour costs are going through the roof for banks, and I can generate a pipeline of business because I can take that challenge away."

Managed services have become the main engine for growth at SmartStream, as it addresses many concerns its banking clients have. The company is all about anticipating customer needs and providing solutions. Managed services brings that core philosophy to life. ●