Cloud adoption: the future for the back office?

An increasing number of banks are moving back office applications to the cloud. Peter Hainz of SmartStream investigates this trend.

Faced with rising data volumes, greater regulation and burdensome legacy infrastructure, as well as increased competition and demands for improved customer service, banks are under huge pressure. With growing acceptance of cloud strategies across the industry, and greater reassurance as to the cloud’s security, banks are becoming interested in moving back office applications there.

Responding to industry feedback, SmartStream offers cloud-based support and management for its applications. It provides a tiered, three-stage process. The first stage sees SmartStream maintain a client’s applications from an IT perspective. If required, clients can progress to a second step, with SmartStream taking on IT change management. To further drive down overheads, some firms move beyond pure cloud services to a third level – full business process outsourcing.

How can cloud adoption help financial institutions manage their back offices more cost-effectively and efficiently?

REDUCING OVERHEADS
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Peter Hainz, SmartStream

SECURITY AND DATA PROTECTION
Intensifying regulatory oversight and ever-expanding reporting obligations are driving cloud adoption. Security is an important issue – a vendor’s platform hosting environment should comply with the highest standards of information security management.

SMARTER USE OF RESOURCES, UP-TO-DATE APPLICATIONS AND BEST PRACTICES
Financial institutions spend a great deal of time on manually intensive, on-premise tasks, such as manual matching. If a Software-as-a-Service (SaaS) platform solution is managed by the vendor, valuable in-house resources are freed up to concentrate on strategic projects.

Taking care of upgrades binds in-house resources. Putting applications into the cloud, where they can be managed by the vendor, alleviates this. The vendor will also ensure that applications are running on the latest version and are kept up to date with security and other patches. Additionally, software providers often guarantee industry best practices in relation to monitoring back-up, archives and other housekeeping tasks.

Blockchain in the cloud – financial institutions are building consortiums to develop blockchain applications. Thanks to its scalability, the cloud is a great place to establish blockchain services.

Business continuity – the cloud often provides superior business continuity and disaster recovery technologies to on-premise solutions. One reason for this is that cloud computing relies heavily on hardware independent virtualisation technology; another is that cloud services (for example, AWS) are redundant in different availability zones.

In conclusion, financial institutions are under greater pressure than ever to control costs and streamline back office operations. They are on the hunt for innovative, scalable solutions that allow them to update their legacy infrastructure, reduce the total cost of ownership and introduce other efficiencies – increasingly, they are finding these in the cloud.

REGULATORY APPROVAL OF CLOUD-BASED SERVICES
Regulators’ changing attitudes are also playing a role in encouraging cloud adoption by the financial sector. De Nederlandsche Bank (DNB), the Netherlands’ national banking regulator, was one of the driving forces in Europe that enacted legislation permitting financial institutions to use cloud-based services. FINMA has allowed the use of cloud-based services in Switzerland, too.

A RAPID, COST-EFFECTIVE ROUTE TO ADOPTING NEW TECHNOLOGY
Financial institutions want to upgrade their technology but are keen to avoid lengthy, expensive implementations. The cloud provides a quick, cost-effective adoption route. Clients are live within weeks, while dependence on in-house staff for hardware set-up, software installation, configuration, training and maintenance is reduced, or even eliminated.

HARNESSING THE POWER OF DATA: AI ANALYTICS AND MI DASHBOARDS
The scalability and flexible storage capacity of the cloud make it an excellent platform from which to analyse data. Artificial intelligence (AI) analytics can be run on large amounts of information to provide business insights and increase competitiveness. In the case of transactions management, AI may potentially support firms to achieve faster data loading and exception management.

Financial institutions want to trade more efficiently and are interested in measurable outcomes that can be tracked via management dashboards. Building the tools to gather such business intelligence is time consuming and hard to achieve in house. SmartStream has developed message interface (MI) dashboards as part of its cloud offering. These can be used to analyse trades; for example, to monitor manual rates, automated matching rates and straight-through processing (STP) rates.

total cost of ownership. Overheads are minimised as no hardware is required, nor are software licences needed. Software and hardware upgrades are performed by the vendor, while support and user training costs are brought down, too.

Where such services are offered on a transaction volume-based model, improved budgetary control can be achieved. The cost structure can be treated as part of the operational budget, which financial institutions prefer to up front capital expenditure. The model may also be scaled up and down to suit business requirements and budgetary pressures.

Blockchain in the cloud

Business continuity

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