A Strategy for Banking Firms in Europe

MOVING TO THE CLOUD

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FINANCIAL SERVICES TECHNOLOGY ADVISORY: PERSPECTIVES ON CLOUD

accenture consulting
Banking firms worldwide are facing multiple challenges. Along with regulatory demands for greater transparency, higher capital requirements, and new standards for the treatment of customers, they are also responding to shareholder pressure for higher margins and faster growth and to new inroads from traditional and non-traditional competitors. To accomplish this, many firms are turning to the cloud, employing it as a business asset that can help transform the company and reshape operating models, product and service offerings and the customer experience. Cloud is the foundational element for this digital change.

As seen in Figure 1, start-ups and competitors from inside and outside the industry are using digital technologies to offer customers personalized products at lower cost. Access to new sources of data is opening previously underserved markets. Burdened by legacy systems and outmoded operating models, traditional financial services firms run the risk of being bypassed by faster, more agile competitors. Amid this volatility, banking firms are exploring the transformative power of technologies such as cloud. Cloud offers new approaches to profitable growth, and firms need a comprehensive and well-executed cloud strategy to capture the full potential of this powerful business asset.
Most banking firms have begun to explore cloud’s potential as a business building asset, but they are not taking full advantage of cloud’s ability to support a financial services organization in an evolving digital marketplace. Cloud can be the foundation for a comprehensive transition that positions a financial firm as a serious competitor in our new and demanding environment.

Firms engaging in piecemeal cloud projects may find it difficult to realize desired business outcomes. While one-off projects are executed, the firm’s culture remains stagnant, without an overall commitment to innovation. Firms are using cloud to attain specific objectives, such as bypassing legacy systems or developing new products. While these are important aims, cloud can do much more. As a technology, cloud allows financial firms to transform their business into a digital business, strengthen their enterprise security and compliance, reduce their infrastructure footprint and introduce automation to deliver enhanced efficiency and cost savings. As a business asset, cloud also helps firms increase their agility and speed to market to seize new opportunities and protect revenue streams, respond to changing business dynamics, adapt quickly and rapidly scale to meet a firm’s changing business needs.

Figure 1: Competitive Environment in Financial Services

**EXTERNAL THREATS AND CHALLENGES**

**Disruptive Competition**
Competition, disintermediation, fragmentation of the traditional bank value chain

**Challenging Customers**
Liquid expectations, digital life, changing customer base

**INTERNAL CHALLENGES**

**IT and Business Alignment**
Extended time to market, IT initiatives without clear business strategy, lack of service mapping and service-level agreements (SLAs)

**Mainframe Dependency**
Monolithic applications, waterfall development, long development cycles, no levers for managing costs

**IT Model not Adaptable to Change**
Automation and virtualization not delivering expected results, tactical initiatives such as software defined networks (SDNs), but no clear reference architectures

**MARKET PRESSURE**

**Stagnant Revenue Pools**
Continued weakness in bank profitability and pressure to reduce costs

**Changing Regulations**
More capital and regulatory constraints

Source: Accenture, October 2017
As seen in Figure 2 below, cloud is a “win-win” for banking firms.

In our view, banking firms should do three things to position themselves to take full advantage of cloud’s potential. They should:

1. Transform their operating and delivery models, clarifying requirements and governance issues and establishing a comprehensive process;
2. Address regulatory and security issues related to full cloud adoption; and
3. Develop an architecture and approach to cloud that meets all requirements, sets appropriate policies, formalizes governance structures and processes, and creates an architecture to support these initiatives.

We believe that banking firms that take a comprehensive, enterprise-wide approach to cloud strategy can develop a significant competitive advantage over firms that tackle cloud one project at a time.

Figure 2: Cloud-Created Opportunities for Banking Firms

- Agility to meet volatile business cycles
- Reorganize IT cost structure moving Capex to Opex
- Agile application release cycles through DevOps
- Better operational control of the platform
- Elasticity to support high seasonality and on demand consumption
- Cost reduction and improved cost predictability
- Facilitate access to enhanced capabilities (i.e. analysis of massive amounts of data)
- Increased security and controls through automation

Source: Accenture, October 2017
BARRIERS TO CLOUD IMPLEMENTATION

While most banking firms are exploring and/or using cloud on some level, many firms are hesitant to undertake a full-scale transformation. Risk and security executives cite issues associated with public cloud solutions, although major cloud providers have successfully addressed most of these concerns as seen in Figure 3 below.

Figure 3: Perceived Security and Regulatory Compliance Issues Associated with the Cloud

<table>
<thead>
<tr>
<th>Perception</th>
<th>Reality</th>
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<tbody>
<tr>
<td>1. The cloud is insecure</td>
<td>“A multi-tenant cloud may actually be more secure because it makes it difficult to target a particular company or data set.” Senior executive, CTERA Networks Ltd.</td>
</tr>
<tr>
<td>2. The cloud suffers from more breaches</td>
<td>“When the correct security policies for preventing attacks and detecting them are implemented, attacks are no more threatening to the cloud than any other piece of infrastructure.” President and Co-founder, Huddle™ (Ninian Solutions Ltd)</td>
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<td>3. Data is secure when it is physically controlled</td>
<td>“The various high profile security breaches... have served to highlight that the physical location of the data matters less than the access and associated controls.” General Manager of Navisite, LLC</td>
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<td>4. Cloud security tools and capabilities are not ready</td>
<td>“There are now tools and capabilities that allow IT to enable cloud securely in any number of environments specific to unique requirements’ needs thanks to the ubiquitous nature of APIs.” CEO and founder of Netskope, Inc.</td>
</tr>
<tr>
<td>5. Maintaining cloud security is far too difficult</td>
<td>“Believing in this myth leads to companies either compromising security in the name of business requirements or refraining from using the cloud for mission critical applications.” CEO of Flux7, Inc.</td>
</tr>
</tbody>
</table>

Sources: The great IT myth: is cloud really less secure than on-premise?, Information Age, March 9, 2015. 20 of the Greatest Myths of Cloud Security, CIO.com, May 13, 2015.
Many firms have made significant investments in their legacy systems— investments that have yet to be fully amortized—and there is fear that migrating to the cloud could increase costs at a time when there is intense pressure to reduce costs instead. Firms may worry that key applications are not “cloud ready” and may require significant modernization before they can be migrated to the cloud. Other firms adopt a wait-and-see attitude, watching how competitors handle cloud challenges before committing to major change.

In our view, the time for waiting is over; now is the time for an aggressive move to the cloud. Cloud capabilities have evolved so rapidly that cloud can support any strategic direction, whether through a hybrid approach or via the public cloud.

Banking and financial services firms can realize tremendous benefits by adopting a cloud-based approach to digital transformation. However, senior management and the board need a clear understanding of what such a transformation entails. Key elements include:

- **Re-thinking the firm’s culture**
  Cloud should be the basis for an environment that encourages innovation and excellence. Senior management should provide strong, visible executive sponsorship, with clear messages that comprehensive changes are under way.

- **Roadmap and migration plan**
  Before beginning the transformation process, the firm should develop a roadmap and migration plan that establishes priorities and the steps needed to accomplish them in sequence.

The cloud architecture should incorporate backup and redundancy features while addressing security and performance concerns. It should also integrate toolsets and processes to manage the cloud (once implemented) and to make sure anticipated business benefits are realized.

- **Transforming delivery**
  A holistic cloud implementation should result in a centralized, fact-based delivery program that incorporates DevOps and automation. Through a robust, tightly-controlled approach to governance, firms can conduct business as usual activities in parallel with cloud migration initiatives. A key milestone might include the elimination of data centers.

- **Designing a talent strategy**
  Cloud-based financial services firms can access a variety of solutions using Software as a Service (SaaS) models. In most cases, however, they will develop their own software for core functions. This means not only attracting and retaining new types of talent but giving development teams what they need to innovate and deliver. The challenge of finding hundreds if not thousands of people with scarce talents in a tight market should not be underestimated.

- **Taking a closer look at the ecosystem**
  Financial services firms moving to the cloud should build strong relationships with key suppliers. It may be possible to reduce the number of overall relationships (although competition should be encouraged) but contracts, incentives and other considerations should be carefully thought through.
IN OUR VIEW, THE TIME FOR WAITING IS OVER; NOW IS THE TIME FOR AN AGGRESSIVE MOVE TO THE CLOUD.
CURRENT STATE OF CLOUD IN THE FINANCIAL SERVICES SPACE

Cloud is a relatively new technology, with the first commercial cloud solutions only coming to market in the last 15 years.

Due in part to security concerns, banks and financial services firms were late in implementing cloud solutions, but there has been significant uptake in recent years, especially from retail banks. According to surveyed EU-based financial institutions, 88 percent are using cloud-based services.¹ Cloud has become the default choice for both new applications and legacy enhancement initiatives. What we are seeing, however, is that many banking firms are using cloud to improve their current systems and operating model, rather than using cloud as the basis for a more fundamental transformation.

Figure 4: Paths to the Cloud

- **SaaS or Cloud Native Custom Development**
  Where SaaS is not viable: design, develop or migrate applications developed specifically for Cloud, using PaaS, Microservices, Containers and DevOps

- **Migrate to Cloud**
  Move applications to Target Cloud Platform using traditional migration methodologies

- **Application Remediation**
  Re-platform and remediate applications to make them platform compliant and cloud-ready

- **Application Re-Engineering**
  Re-architect applications, to be delivered in more agile ways via automation services for Target Cloud

- **Migrate to SaaS**
  Find equivalent functionality and migrate to SaaS

Source: Accenture, October 2017
As seen in Figure 4, banking firms have many options from which to choose in selecting a “path to the cloud,” including:

- SaaS packages from established vendors
- “Cloud native” custom development
- Migration to cloud
- Application remediation and/or re-engineering
- Migrating to SaaS from a custom environment

In general, however, these different paths lead to common goals. Banking firms want to create new business models to deliver on their business objectives and strategies. Increasingly, this means anticipating and/or responding to disruptive challenges. To do this, firms should undertake a shift in thinking; they should put technology, rather than finance, at the core of their business, seeing it as the platform to profitable growth.
HOW IT WORKS: CLOUD IN RETAIL BANKING

As mentioned, banks with a retail focus have been quick to explore cloud options. Working on a case by case basis, banks have used cloud to rationalize distribution channels and access layers; accelerate product development; reduce core costs; and consolidate services.

For example, Accenture worked with a large bank to create a cloud architecture that would automate the conversion of data from multiple sources into useful insights for making business decisions. With this foundation in place, the bank was better able to support development efforts and reduce development cycle times. The new cloud architecture led, as well, to a simplified operating environment and increased productivity.

The move to a cloud-based IT architecture had other important results. Overall operating costs decreased and the time needed to bring new products to market decreased substantially. Another benefit was that the bank reduced its reliance on a group of subject matter specialists who were gradually “aging out” and leaving the organization via retirement. In a more flexible and agile operating environment, data became the driving force behind decisions related to product development and the customer experience.

Other examples of effective cloud-based implementations include:

- A major European bank is using cloud to support its digital transformation strategy and to cope with exponential growth in digital transactions, currently closing in on one billion transactions per day. As part of the same initiative, the bank is using the cloud to promote knowledge sharing and improved regulatory compliance.²

- Another large European bank is using specialty software to develop an internal cloud that automates the connection of IT processes to workflow. With the new cloud structure, the bank can scale up or down quickly. The bank took its existing infrastructure and layered on the automation software, giving it the ability to interconnect heterogeneous systems and exchange data.³

- A German fintech firm now essentially provides “banking as a service,” with offerings residing in the cloud and offered through the Internet. The fintech firm has received a banking license and delivers to other fintech companies things like account and transaction services, compliance and trust solutions, working capital financing and online loans.⁴
CLOUD HAS BECOME THE DEFAULT CHOICE FOR BOTH NEW APPLICATIONS AND LEGACY ENHANCEMENT INITIATIVES.
HOW BANKING FIRMS SHOULD BE THINKING ABOUT THE CLOUD

There is no one size fits all cloud strategy for all banking firms. As shown in Figure 5 below, some firms are competing effectively using legacy systems and an operating model that relies upon those systems.

These firms may use cloud-based solutions for non-core areas such as CRM or human resources, or they may integrate cloud into certain aspects of product development, channel optimization or credit risk assessment.

Other firms are looking at cloud as the basis for a digital transformation. While this approach can lead to the creation of a sustainable competitive advantage, it also entails a significant commitment in resources and management focus.

In addition to economic benefits, desired outcomes from a holistic, cloud-based transformation would include a flatter, more responsive organization and an environment that encourages innovation using “fail fast” techniques of rapid, data-based test programs. The cloud-based organization should feature fast, effective delivery and an enterprise-wide emphasis on organizational learning and adaptation.

Figure 5: Using Cloud to Enhance Legacy Systems

New applications and capabilities can be built on the cloud to instantly realize the benefits of the ‘as a service’ architecture.

Legacy systems can be moved to cloud in 2 modes:

1. **Evolve** to the cloud through the strict governance and influence of the existing change portfolio
2. **Proactively invest** in executing capabilities with a cloud architecture when a compelling business case permits

Source: Accenture, October 2017
CONCLUSION

Using cloud as a business asset, banks are transforming themselves at high speed. This transformation, which took place slowly at first, is accelerating and is now affecting central applications and core systems. Through new approaches such as Platform as a Service (PaaS) everything is now subject to change and improvement.

Some banks are experimenting with specific cloud solutions while others are contemplating a cloud-based transformation to a truly digital organization. It is often worthwhile, however, for the firm to take a step back and to think about the big picture—where it is now and where it wants to be in one, five or ten years.

Key elements of this assessment might include a review of the firm’s current IT structure, its internal talent, and its technology operating model. Does it see itself as a technology firm engaged in financial services, or as a financial services firm using technology to support its goals?

This self-appraisal should guide an analysis of options for cloud strategy, including the integration of regulatory and security concerns. An important part of this analysis is an evaluation of the current ecosystem, including strategic and infrastructure partners as well as suppliers of specific solutions. Banking firms that decide to become digital players—putting technology at the core of their businesses—can reap significant benefits, but achieving this goal depends upon a coherent cloud strategy.
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Liv Sandbaek, Senior Managing Director, Accenture Financial Services Technology Advisory. As a client account lead for Financial Services, Liv works closely with leading global enterprises to build, test, and integrate custom technical solutions. She has deep capital markets consultancy experience working with exchanges, trading, clearing, and settlement systems. In her current role she is also very focused on developing talent and building capabilities within Accenture to provide clients with highly differentiated, end-to-end services. Educated in Norway, she has been based in London for 26 years. On a personal note, Liv has seen “Swan Lake” 37 times, an appreciation she cultivated from her father who was a professional ballet dancer.

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REFERENCES


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