

Why Financial Services Organizations are Reconsidering the Cloud

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Introduction

Over the last decade nearly every business has moved significant workloads to the public cloud. However, the financial services industry has lagged in this migration to the cloud. Why? These enterprises store highly sensitive customer information that require high levels of security, must comply with state, national and international compliance and governance regulations, and must have 24/7 uptime.

Banks and other financial services institutions are rethinking their tepid approach to the cloud for two significant reasons. Firstly, customers have been demanding new ways of engagement and new offering – and are seeking FinTech alternatives if their bank can't deliver. Just as significant, cloud service providers are offering a new generation of industrialized offerings aimed at mature enterprises like financial services. Rather than a one cloud fits all approach, where the same services are offered to startups, gaming companies and mature enterprises, industrialized cloud offerings are specifically tailored for a specific vertical industry.

Understanding financial services clouds – An apps-based approach versus a development platform

Cloud offerings designed for financial services organizations are not new. Many banking organizations have adopted pockets of cloud computing through the use of SaaS applications for capabilities such as CRM and human resources management. However, these companies have been hesitant to move sensitive workloads to the public cloud. Hosting customer data, regulated data and corporate IP on a public cloud has been a non-starter for most financial institutions. However, this posture is changing with the advent of industry specific cloud offerings.

Vendors have taken two approaches to offering industrialized cloud products to the banking industry. Some cloud providers are offering specific pre-built, but customizable banking applications that are focused on providing a specific banking functions for customers (for example mortgage approvals). On the other hand, some cloud vendors are taking a platform / ecosystem approach that is designed to meet the needs of banks as well as upstream and downstream partners. This ecosystem approach incorporates compliance and governance controls as well as security to ensure that all of the data, workloads and apps offered within the ecosystem meets the requirements of the banking industry.

In this article, we will look at IBM's efforts to meet the banking industry cloud requirements through its IBM Cloud for Financial Services platform . IBM has embarked on the platform approach to building a cloud ecosystem. During our research for this article we interviewed a number of IBM customers and partners to understand their requirements for an industrialized financial services cloud ecosystem.

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IBM's Approach to Creating a Financial Services Cloud Ecosystem

While financial services companies have grown comfortable with the private cloud they increasingly want to move to the public cloud because of scalability and elasticity. In addition, banks want to drastically increase their pace of innovation and create digital pipelines with IT suppliers that have cloud first offerings. The foundation of IBM's financial services offering, first introduced in 2020 and expanded in 2021 focuses on a compliance framework that is built on top of the IBM Cloud.

The IBM Cloud for Financial Services cloud platform was co-developed with Bank of America to address the needs of financial services companies. The primary objective of IBM's offering is to deliver the benefits of public cloud (speed, elasticity, breadth of advanced data and security services) in a trusted environment capable of supporting confidential banking data and mission-critical workloads. To help advance its cloud platform and ensure that it meets the needs of the industry, IBM is working with a number of industry councils. These councils are made up of CXOs, including CTOs and CIOs from some of the largest financial services companies in the world. These industry councils help to inform IBM as they drive towards creating an industry cloud standard.

Thus far, IBM has signed up more than 90 ecosystem partners including ISVs, SaaS providers and systems integrators. Each of these partners is in the process of becoming IBM Cloud for Financial Services validated, with their services passing a rigorous certification of their offerings. One of the most recent additions to the partner ecosystem is SAP.

The Framework for IBM's Financial Services Cloud

In addition to the industry councils, IBM also relies on the expertise of Promontory Financial Group, a subsidiary of IBM. Promontory is made up of former regulators, along with compliance, legal and governance experts that help advise financial services clients as well as IBM product teams on how to create offerings that adhere to the changing governance landscape. By utilizing these resources, the IBM Cloud Framework for Financial Services, provides industry-informed, risk-centric security and compliance controls required to operate in a public cloud. This Framework forms the underpinning for all of the services, data and workloads on the cloud ecosystem -- whether they are ISV applications, bank owned workloads or IBM services and software.

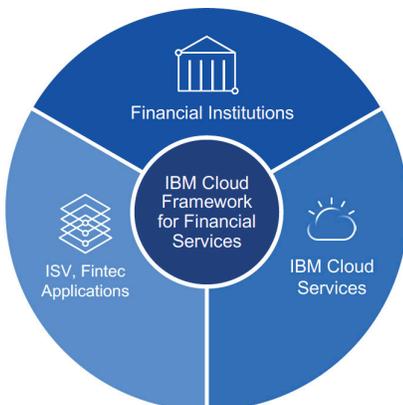


Figure 1: The controls framework for IBM Cloud for Financial Services enables pre-configured controls and monitoring across bank workloads, cloud services and the technology partners (ISVs/SaaS/Fintechs.)

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You can think of this industry offering as a walled-off section of the IBM Cloud that includes all of the security, governance, auditability and compliance that the banking industry requires. At the same time, the Financial Services Cloud benefits from the innovation, scalability and resiliency of the IBM Cloud. The framework of this financial services cloud has been designed to support the following three pillars:

- **Bank Apps & Workloads** – During an interview with a bank CXO, he said “although our front-end systems of engagement have been modernized, we still rely on outdated systems that must be modernized.” This offering from IBM is designed to help banking organizations migrate critical workloads and data to the cloud so that they can be modernized to support new business models and increasing customer expectations.
- **Third Party SaaS / ISV Apps** – Banks rely on thousands of IT suppliers, and making sure these partners comply with banking industry regulations is a huge cost to banks and creates long sales cycles for banking suppliers. When we interviewed a sales and marketing executive at a mid-sized banking application vendor, she explained that “we often have to go through a six to nine month process for each client to certify our offerings.” The executive went on to explain that “by building our application on IBM’s banking cloud we expect to drastically reduce the approval process because all of the certifications are already in place.”
- **IBM Cloud Services** – In addition to creating an ecosystem that now has more than 90 partners, IBM Cloud services also comply, offering regulated builds of runtimes, developer and data services. The company will be offering applications like its Cloud Paks and AI services on the Financial Services cloud.

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The below visualization helps to summarize the IBM Cloud for Financial Services framework and the three pillars that sit on top of the IBM Cloud:

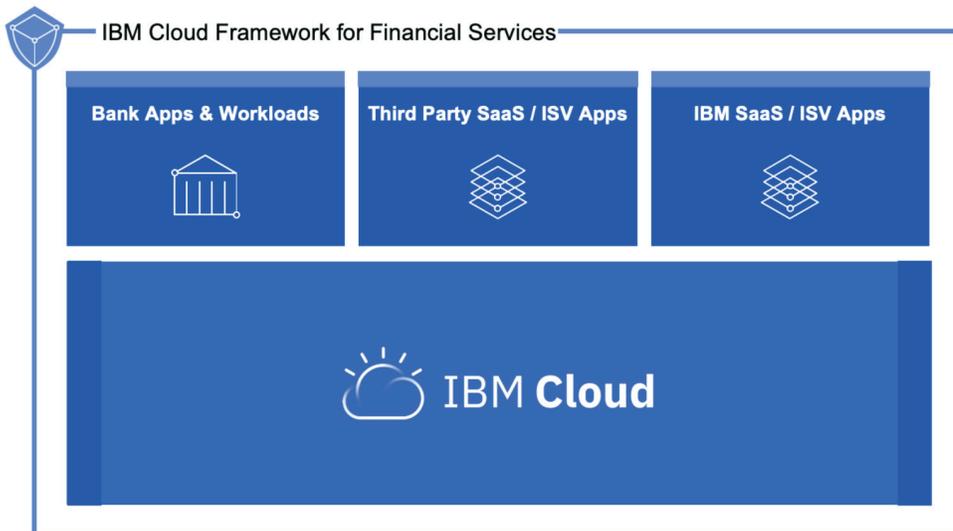


Figure 2: The IBM Cloud for Financial Services is both a cloud platform and ecosystem of financial institutions and technology partners.

The value of the IBM Cloud for Financial Services platform

As we interviewed banking executives and IBM ecosystem business partners, it became very clear that banking organizations need to move quickly. Financial services firms are being challenged by new competitors and business models on a nearly daily basis.

As financial services organizations look to compete and offer clients new services they need technology that can support both industry governance requirements and the need for digital reinvention. The IBM Cloud for Financial Services is focused on three core capabilities that are needed by financial services companies:

- **Continuous Compliance.** The IBM Cloud for Financial Services provides pre-configured controls that enable continuous compliance and governance capabilities that helps businesses safely move to the cloud while reducing compliance costs. In addition, the IBM Cloud Security and Compliance Center dashboard enables banks to continually monitor and enforce security and compliance policies while aided by automated remediation.
- **Accelerate innovation.** The typical financial services business needs to manage a large number of ISV partners. As more ISV partners move to the IBM Financial Services Cloud, banks can innovate faster because they have assurances that suppliers are offering services on a secure and compliant platform. Without this assurance, vendors have to go through lengthy compliance and governance processes that can take upwards of a year. In addition by moving to the IBM platform, DevOps teams gain the flexibility of the cloud while management can be confident that the businesses is maintaining compliance.
- **Agility across the business.** Financial services companies are rapidly adopting a hybrid and multicloud architecture so that they can run workloads anywhere depending on the nature of the data and workloads. With its fourth generation Confidential Computing, IBM offers the ability to safely run data workloads both on premises and on multiple public clouds.

Client and Business Partner Benefits

Hurwitz & Associates interviewed a number of IBM clients and business partners to understand their assessment of the cloud platform for the financial services industry. While these business partners were at different levels of maturity on the industry cloud ecosystem, all articulated that the need to easily prove to customers that their offerings were made for the enterprise and met industry compliance and governance standards. IBM Business Partners all indicated that building solutions on a standardized compliance framework had saved them huge amounts of money. By being certified on the IBM Cloud for Financial Services these partners did not have to spend as much time and money certifying their offerings to clients. In addition, sales cycles were reduced because many of the common objections around governance and security were overcome through the platform's existing capabilities. IBM Business Partners are also anticipating the value of working with other ecosystem partners.

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Senior managers at financial services organizations have to ensure that their customer data is safe and adheres to governance compliance standards for their industries and their geographies. Therefore, it is increasingly clear to these managers that they have to move rapidly to innovate with hybrid cloud services that are both innovative and always compliant. Combining the continuous threat of competition with the dramatic changes brought on by the pandemic has forced even more rapid transformation throughout the entire digital supply change of financial institutions.

Conclusion

We see the next 12-16 months as an important period for the IBM Cloud for Financial Services. The last year has been about creating an ecosystem that includes anchor banking clients as well as growing the partnership community from 30 to more than 90. We expect the momentum behind IBM's industrial cloud for banking to accelerate as capabilities like Red Hat OpenShift, VMware workloads and Confidential Computing are all now supported. IBM's approach of creating an industry specific cloud and ecosystem can be seen as a blueprint with the likelihood of other industry-focused clouds in the near future.

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About Hurwitz & Associates

Hurwitz & Associates is a strategy consulting, market research and analyst firm that focuses on how technology solutions solve real world customer problems. Hurwitz research concentrates on disruptive technologies, such as Cloud and Multicloud Management, Big Data and Analytics, Machine Learning and Artificial Intelligence, Information Security, DevOps, and emerging infrastructure platforms that are defining the future of business agility. Their experienced team merges deep technical and business expertise to deliver the actionable, strategic advice clients demand. Additional information on Hurwitz & Associates can be found at www.hurwitz.com.



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