Software-as-a-Service: Banking on cloud

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Software-as-a-Service (SaaS) is gaining traction as financial institutions seek to cut costs and silos and increase flexibility in their IT infrastructure. FX-MM's Frances Faulds looks at the drivers behind SaaS adoption as financial institutions look to leverage the power of the cloud to increase the efficiency of their systems.

From cash management, trade and supply chain finance to payments, mobile banking and business analytics, there are few areas of transaction banking that the cloud does not touch. Business process, software, platform, and even the entire infrastructure can now all be bought as a service, turning a large up-front capital expenditure into a smaller, ongoing operational cost.

As the technologies behind cloud become more robust and secure increasing numbers of banks are looking to make the shift, largely due to industry pressure to consolidate IT costs – in fact, Gartner forecasts that by 2016, poor return on equity will drive more than 60% of banks worldwide to process the majority of their transactions in the cloud. While economic effects can be attributed to the slowdown of overall IT spending, Gartner's forecasts for 2016 indicates an increasing appetite for cloud and software delivered services as opposed to expensive hardware and infrastructure.

Responding to demand

In response to this rising trend, Reval, a global provider of treasury and risk management services, packaged functionality from the Reval Cloud Platform last year to support a bank's corporate banking services, offered through its existing portal.

Günther Peer, Vice President, Treasury Services Business Operations at Reval, says: "This allows banks to leverage our pedigree in the corporate market to bring a deeper level of functionality to their clients, while continuing to provide clients easy access anywhere, anytime, and new functionality as needs emerge, for example, for regulatory compliance. Banks can white-label this functionality with the confidence that Reval's ongoing innovation can be brought to their clients quickly."

Peer believes Reval is uniquely positioned because it works directly with both banks and companies to provide corporate cash and liquidity solutions. He says: "We know banks since we have worked with them directly for years to help them service their corporate clients. We've made our bank offering more broadly available by packaging it, and making it easy for them to go to market in a very short time, with limited risk."

Enabling integration

To facilitate the integration, he adds, Reval leverages industry standards to the widest extent, with messaging formats, transfer channels, and a standardised set of treasury service adaptors that are flexible to configure the individual needs of our clients, in terms of data transformation, performance and security.

He says that the Reval INSIDE package enables banks to deliver a superior corporate banking experience, particularly in cash forecasting or global cash pooling. Cash pooling is used to concentrate funds in a small number of bank accounts, so the bank that is offering those services will be holding these master accounts. Says Peer: "It becomes the provider of day-to-day liquidity by granting overdraft on these master accounts. Typically the bank will also see more payment trans actions as well as receivables processes as the client seeks to maximise the efficiency of the cash pool. Surplus liquidity will be held with the bank as well, partly kept in the master accounts, partly invested in other products."

Now a leading SaaS provider, Reval will design future packages in the same way, using the vast functionality from the cloud platform and continuing to build and pre-configure packages in the way that different markets want to consume it.

The right fit

Cloud computing is expected to be one of the fastest-growing technologies in the next few years, enabling financial institutions to turn a large up-front capital expenditure into a smaller, ongoing operational cost. Furthermore, the unique nature of cloud computing allows financial institutions to pick and choose the services required on a pay-as-you-go basis.

SmartStream's TLM OnDemand offers a cost-effective way of automating post trade processing operations. Available on a SaaS basis, it offers a secure, resilient and fully managed web-based service, and is accessed via the cloud. There is no upfront capital expendi ture and no cost or resource implications of managing hardware, infrastructure, back-ups and upgrades in-house.

Darryl Twiggs, Head of Product Management at SmartStream, says the firm has been offering cloud-based trade reconciliations services since 2009, adding all SmartStream's TLM solutions in 2012, and that although SaaS was targeted at tier two and three organisations looking to cut costs, tier-one banks have now an increasing appetite for buying in specific post-trade services.

He says: "We have found that for example, corporate actions and cash management teams in most organisations tend to be rather small and are often under invested in terms of solution support, so tended to use predominately manual processing. Using SaaS for corporate actions or cash management is enabling firms to automate these operations and provide a central data repository of critical information, which is then available to the front office, middle office and the back office.

“SaaS is not just a cost reduction but a cost benefit in that the pricing model changes to an on-demand consumption basis. They move from a capital cost to an operational cost in subscribing to a service but it also gives firms the opportunity to deliver transformation of a business process, and gain operational efficiency that they otherwise would not be able to achieve internally.”

The reconciliations revolution

For trade reconciliations, Twiggs says nothing short of a revolution is occurring, whether it is the wholesale transformation of reconciliations into a firm’s hosted service or where new reconciliations services are required in a legacy system, such as derivatives or non-cleared OTC products, deploying SaaS lowers the cost and offers a much faster time to market, by using a hosted infrastructure.

While SaaS has been taken up by the back office, today Twiggs says there are a growing number of front and middle office deployments, using SmartStream’s latest hosted service, TLM SmartRecs OnDemand. This is a self-service reconciliations solution which can be added to securely perform a one-off reconciliation. It is the first enterprise product designed so operational staff themselves can define data, load and deliver documented reconciliations results in minutes. “This is of particular value to the front office as this new class of tool integrates data, documentation and delivery into one prototyping product for rapid delivery of new reconciliations. It removes the need for bespoke in-house tools, heavy use of spreadsheets and less powerful matching software as we provide them that reconciliation truly in the cloud,” adds Twiggs.

The ability to scale

While there is an obvious cost benefit in using SaaS, Twiggs adds that SmartStream’s clients are also benefiting from the added scalability it brings, particularly as new regulation is demanding more reconciliations and as firms are becoming more risk-averse and wanting more control points in the reconciliation process. Says Twiggs: “Today, there is a higher cost to onboard recon – cili a tions and with SaaS firms can get time to market very quickly and scale up and down based upon their consumption.”

Furthermore, Twiggs adds the utility model is gradually being included in a number of different streams. For example, SmartStream’s Reference Data Service is a new hub for the delivery of high quality reference data.

For Twiggs, the cloud is fast changing how firms store and access data, simply because data is now being retained elsewhere, outside of the traditional high-walled repositories within the firm so it is enabling more analytics and greater utilisation of this data across the enterprise because it is more accessible. He says: “This is creating more business opportunities and giving firms greater competitive advantage because they are able to provide this information more quickly, and in a more palatable format to their clients” It will also mean that data will be able to move, more quickly, from one region to another, which will help with recent issues around the geographical placement of data as cloud providers have responded by being able to guarantee utilisation of data and improve its security.

A new legacy

Built from the cloud up, Mambu is providing a powerful alternative to the costs and complexity of traditional core banking systems or custom in-house solutions, allowing financial institutions to rapidly create, launch and service any lending portfolio through a flexible SaaS platform.

While Mambu provides the complete infrastructure for start-ups, Eugene Danilkis, CEO of Mambu says SaaS is no longer just for new companies.

He says that legacy technology infra – structure is increasingly holding banks back from offering new retail banking products that are in demand and often means they find themselves playing catch-up to online and mobile customer expectations.

According to Danilkis, the majority of projects Mambu handles today are with existing clients looking to move into new product lines or new market segments.

He says: "Many of these organisations are taking their first step into cloud technology. For the established organisations that already have an IT infrastructure in place, it is a much more difficult transition to make and they are using projects as test cases and create an internal momentum for driving further cloud adoption."

Agility and flexibility

He breaks 'the cloud' down into two main parts: the actual cloud in terms of infra – structure, providing scalable, cost-effective data centres, and the application running on top of the cloud infrastructure. While the use of the infrastructure is mainly driven by pure cost saving, Danilkis says the reason banks look to move into cloud application is because they are engineered to be a lot more agile and flexible than traditional in-house core banking systems.

"They can build out new mobile experi – ences, they integrate out to product fields and they can bring new products to market in weeks, rather than months. This brings a huge opportunity cost to banks," he adds. "This is not only in terms of time to market but also in being able to change the operations further down the line as the cloud is less prohibitive and banks can risk losing market share."

The change in both the consumer and business landscape – the growth of newer technologies, such as a mobile banking, coupled with the growing number of non-bank competitors in this space – mean that banks are more likely to turn to the cloud and SaaS to keep up.

As well as speed to market, Danilkis adds that the cloud gives banks greater organisa – tional focus. Using the best-of-breed technology prevents banks from spending resources and man hours on technology that does not necessarily differentiate any one financial organisation from another. "This allows banks to put their engineers and product managers on looking at things that does differentiate them, such as user experience, product design and credit scoring, and reallocate resources," he adds.

Mambu manages both the infrastructure and the application layer for customers and it is able to fully integrate the cloud application into the bank's existing infrastructure in order to consolidate the customer profile and accounting, using an API to inject or pull-out data in and out of the legacy system. Says Danilkis: "This gives the endcustomer a seamless interaction with the bank, between existing products and newly offered products.

Mambu's cloud solution allows banks to launch new loan or deposit products in hours rather than months, at a fraction of the cost of legacy banking technology. Mambu provides the complete set of enterprise-level tools, security and scalability you'd expect from a banking system without any of the complexity.

Security concerns

Areas tipped to be most suitable for the initial move into the cloud include non-core activities such as customer analytics and customer relationship management, browserbased technologies such as enterprise content management, and IT development and application infrastructure, since these functions are often outsourced already.

However while reduced cost of ownership, flexibility and shortened time to market are the main reasons to move to the cloud there are still security concerns around data protection for banks. Cloud providers continue to work with financial institutions to improve their understanding of these requirements and any specific industry regulations to improve confidence and lead to wider adoption of cloud services.