

A protected space



Summary

“Legislation is seen as a short term hurdle. But in five years we’ll wonder what all the fuss was about.”

Donald van Gasteren
Global Insight Director
Logica

- In spite of any extra costs involved, the focus of the financial services industry is mainly on tapping into new market channels and devices – so innovation is essential.
- Like many industries, moving from high fixed costs to a pay-per-use model is an important objective.
- Clients believe they can use cloud services to introduce new ways of working – ways that’ll also bring costs down.
- Insurers see ‘cutting business costs’ as the cloud’s number one role. While this role is also important for the banking sector, they see ‘growing the business’ as the top role of the cloud.
- Clients need to focus their resources on business critical projects and spend as little time and effort as possible on maintenance and support.
- ‘Data security’ is the number one concern for almost 40% of our financial services clients. To trust cloud services, they need assurances about the confidentiality and integrity of their data.
- We believe the concern about ‘losing control’ is psychological rather than real.

Introduction

“The cloud is just common business sense.”

Is the cloud just another delivery model or will it change the financial services industry’s relationship with its customers? Can it give them better services or is it a distraction? Is it just about cutting costs, or about finding new ways to do things? Or a bit of both? This research report puts forward evidence that these questions can be answered, and in fact have been already. And that getting the implementation right is critical.

Find out what our clients think.

We had more than 140 conversations with financial services clients across Western Europe in the first half of 2011, and saw a number of interesting changes in their attitude towards the cloud.

In this report, we’ll look at how these companies see the impact of cloud services on their business, now and in the future, and what concerns they have.



The cloud's getting a lot of interest

The use of the cloud has changed over the past few months, and our financial services clients are eager to understand what this means for their business.

Some companies see the cloud as an evolutionary move from delivering products to delivering services; others see it as a fundamental change in how an organisation works internally and

with others. However they see it, our financial services clients are assessing and developing their cloud strategies. It isn't hard to imagine how cloud services could dramatically change current business processes, and even reshape whole industry sectors and competitive positions – they're already doing this after all.



The cloud: it's all about delivering services to customers

We found that the issues our clients want cloud services to deal with changed a lot in the first half of 2011. This is because they now understand what these services can do much better.

GETTING TO MARKET FASTER

In spite of any extra costs involved, the focus of the financial services industry is mainly on tapping into new market channels and devices – so innovation's essential. New cloud-based services could make piloting new products and applications easier and help launch them faster and more cheaply.

Clients mention different challenges in the areas of identity and access management, and community-based social services. In the banking sector, they need to understand what their customers need faster and reduce the turnaround time for running relevant marketing campaigns. In the insurance sector, they need to launch and promote new products on an almost continuous basis.

MOVING TO A PAY-PER-USE MODEL

Like in other industries, an important objective for the financial services industry is to move from high fixed costs to a pay-per-use model. The use of IT, by clients' employees and customers alike, is volatile. And because clients have to base their IT needs on peak usage, their systems are, on average, underused. So clients are looking for pay-per-use services that can handle the peaks and troughs of usage and come with flexible pricing.

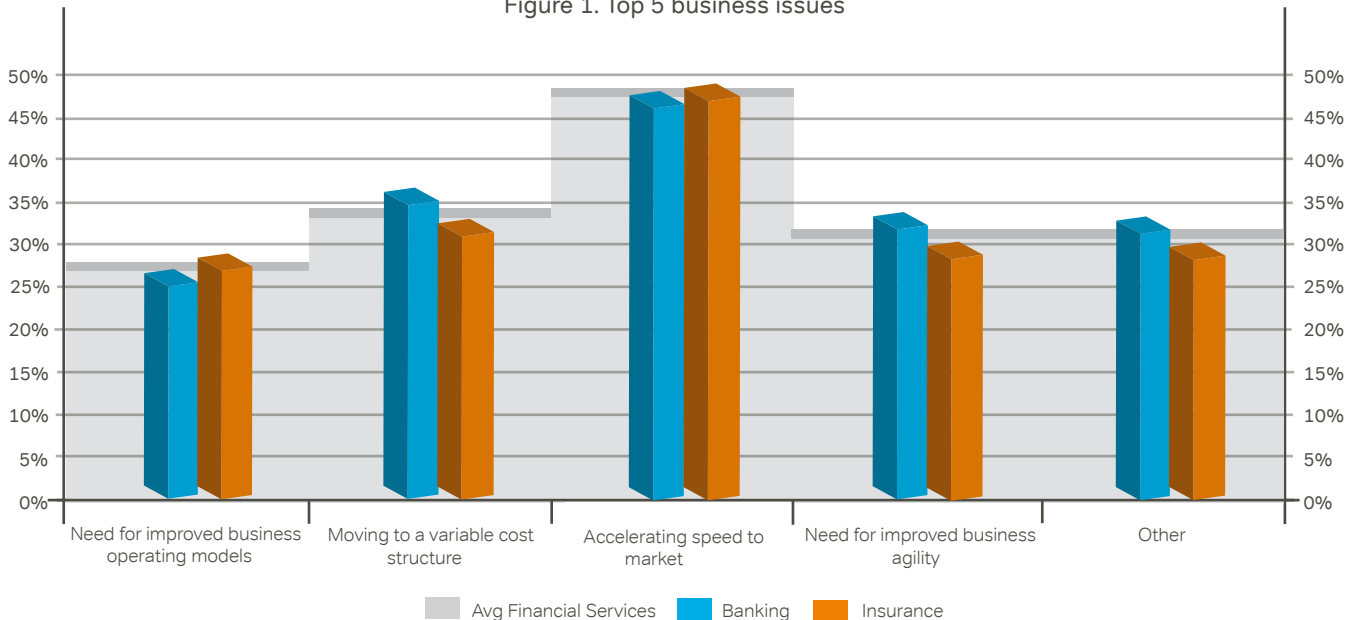
If clients can make the cost of these services variable, they can bring down their IT investment even more.

“Our new e-Invoicing solution in the cloud has helped us to connect to new corporate clients in an easy and fast way.”

Client quote



Figure 1. Top 5 business issues



IMPROVING THE BUSINESS OPERATING MODEL

Clients believe they can use cloud services to introduce new ways of working – ways that will also bring costs down. For example, it's more efficient for employees to be able to work from anywhere, at any time, than to have to necessarily get to the office. And it's also more efficient to drive more customers to a website than to a call centre.

BECOMING MORE AGILE

All the business issues mentioned above are connected to one overriding objective – 'becoming more agile'.

Clients think the time currently needed to develop new portfolio items or comply with changes in risk and regulations is too long, from both a business and an IT perspective. This makes it harder to stay innovative and increase profitability.

They talked about agility in several ways. Here are some examples:

- adapting to the big volumes of enquiries and business that the aggregators bring in
- pricing products in real time
- making sure, as an insurer, that brokers have current ratings.

“Given uncertainty of uptake of service in the market, a cloud based offering gives the opportunity of entry level pricing and low cost testing of the market.”

Client quote

Clients mention other business roles the cloud could deliver:

- testing – at the moment they have to test multiple products for different distribution channels, which is costly
- implementation – bringing in the Solvency II regime, for example.

“With our cloud solution we managed to professionalise our procurement department with optimised processes and state-of-the-art technology.”

Client quote

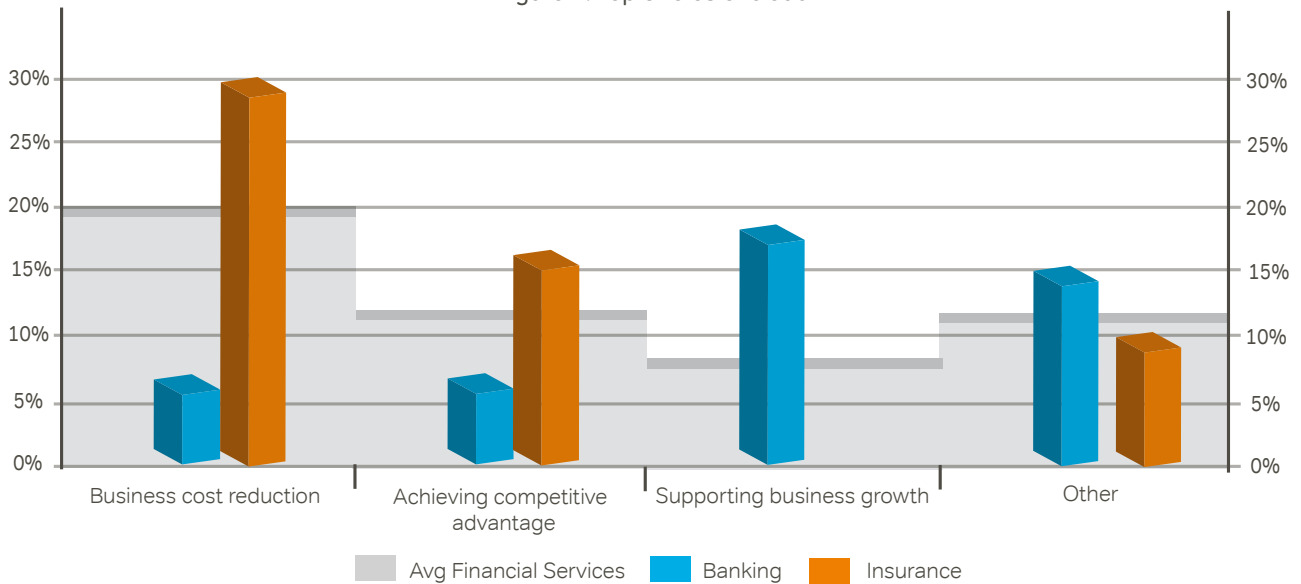
BUSINESS ROLES OF THE CLOUD

Clients in the insurance sector see 'cutting business costs' as the cloud's number one role. While this role's also important for clients in the banking sector, they see 'growing the business' as the top role of the cloud. All the clients we spoke to think cloud services can help them become more competitive.

Banking clients are looking at new services which aren't available today. They can replace their legacy systems with cloud services so they can introduce these new services quickly and more cost effectively, freeing up employees to work on other business projects.



Figure 2. Top 5 roles of cloud



BUSINESS REASONS FOR THE CLOUD

Clients put 'lowers overall costs' as the main business reason for the cloud.

Moving their IT to the cloud and taking off-the-shelf services is appealing because it substantially reduces upfront investment in infrastructure and applications and the ongoing cost of ownership. It makes the concept of pay-per-use a reality.

At the moment, clients have to deal with the inefficiency of local software development projects that eat into the budget but can't necessarily be used elsewhere in the organisation. The cloud can help put a stop to this.

“(We) see the cloud as the clear way forward for provision of infrastructure, which is increasingly becoming a commodity element within any large organisation.”

Client quote



'Gives us a service only available in the cloud' was the second most mentioned reason, although the top reason for the banks. It's obvious clients are now starting to understand just what the cloud can deliver and how much more practical it is than bespoke in-house software products, if they existed.

Some clients also look at it from a broader perspective. They see opportunities to reduce their real estate requirements, bring down their operational overheads, improve their approach to upgrades, and streamline their security arrangements.

Clients put 'lets us focus resources on more important projects' in third place. They need to focus their resources on business critical projects and spend as little time and effort as possible on maintenance and support. They see cloud services as a way to do this. In particular, they expect:

- better service availability because the infrastructure's modern and more resilient
- cheaper maintenance because there are fewer data centres
- less need for infrastructure support because services are consolidated and automated.

"I want to outsource the responsibility of kit-provision and utilise the 'selling point', flex up and down without my staff micro-managing the infrastructure or my business hiring and firing based on capacity needs."

Client quote

Figure 3. Top 3 business reasons

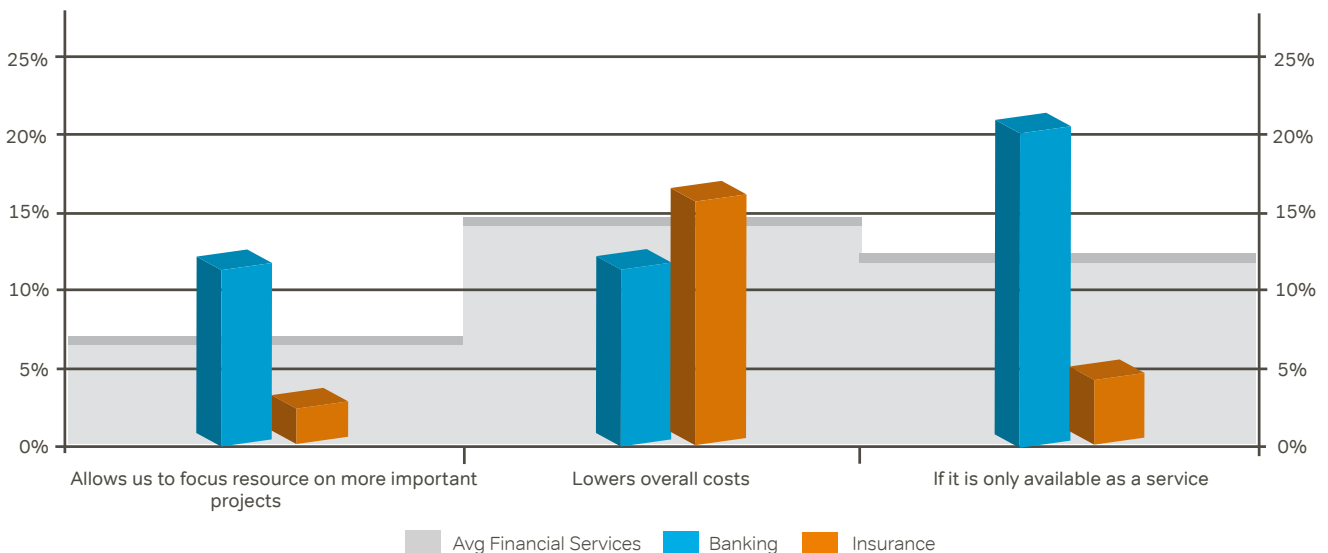
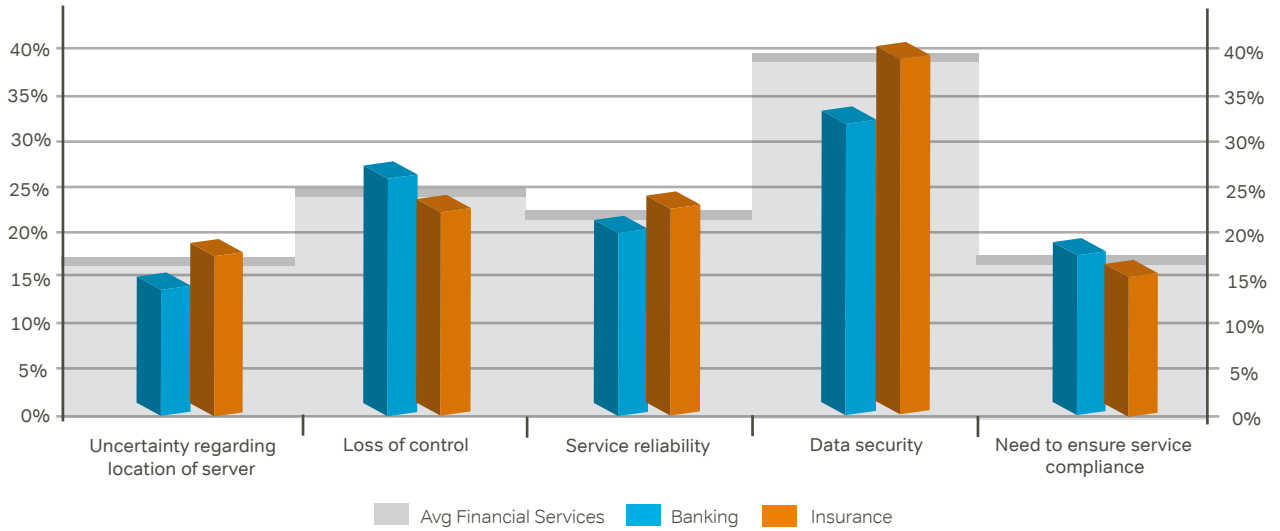


Figure 4. Top 5 business concerns



“Cloud provides an affordable way to increase business agility and improve customer services. At the same time, new industry regulations mean that organisations need flexible and scalable IT capacity – cloud is the answer.”

David King, CTO, Logica



THE BIGGEST CONCERN WITH THE CLOUD: SECURITY

'Data security' is the number one concern for almost 40% of our financial services clients. To trust cloud services, they need assurances about the confidentiality and integrity of their data. 'Not being compliant' with laws and regulations is another hurdle – for example, some clients think it might be difficult to keep walls between conflicting activities in place in a shared environment. In actual fact, cloud computing is based on this 'compartmentalisation' – it's not a question of if it is needed or not, but to what extent it is enforced.

Some clients are more concerned about integrating existing complex back-office systems and new cloud services, and also the physical location of their data.

As cloud services mature and companies become more familiar with them, these concerns are likely to go away.

'Getting a reliable service' is another big concern, which is linked to trust. Some of the issues are:

- how do we know our data won't be misused or lost?
- will the service be up and running at our most critical times?
- how can we be sure service levels will be met?
- how much of a priority will our company be if the service goes down? And if it does, who'll be responsible for any cost or liability?
- how do we know we'll get the right service at the right time? And how can we be sure new releases won't mess things up?

Both 'data security' and 'getting a reliable service' are closely linked to 'losing control', the third most important business concern and the top one in our research at the end of last year. We believe this concern is psychological rather than real, especially if the company uses a private cloud model, which is really just an internal reorganisation of data centres. Inevitably, more questions will be asked if a company handling confidential data in a highly-regulated environment chooses a public cloud model.



Our recommendations on security

1. Work out the risks for each cloud project, taking into account applicable regulations, data sensitivity and business requirements.
2. Decide on the deployment model (private, public or community) and the service model (infrastructure as a service, platform as a service, or software as a service) depending on the risks.
3. Make sure you integrate security with the existing technical, organisational and procedural set-ups. If you need to, add security services like digital signatures, time-stamping, secure archiving and logs.
4. If a third party delivers the service, make sure you understand, exactly, what security is in place.
5. Set up and monitor performance indicators for security so you can make sure it keeps doing the job over time.

Thibault Chevillotte
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Conclusion

Is the cloud here to stay? We say yes, but we also say the cloud is just the beginning. As cloud services in the financial services industry start to mature, new business models will appear, eventually reshaping the whole business environment.

Is it really that important? Again, we say yes. The cloud, with its flexibility and scalability, will help the industry deal with the issues of 'getting to market faster', 'moving to a pay-per-use model' and 'becoming more agile'. Not only that, it'll drive down investment and running costs too – essential now more than ever.

What about the challenges? Well, the IT is already in place – that's not an issue. We do need to overcome worries about security and trust, which in time, we will. We need to be sensitive to how the industry deals with change, and help it through these business and technological changes.

So challenging? Yes. Impossible? No. Desirable? Definitely.



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