



Banking in the Private Cloud

Why Banks Are Making the Shift

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Cloud services have long held a valuable role in the IT strategies of many banks. But today, the benefits you can gain from a successful cloud partnership are now greater than ever.

By banking in the private cloud, you can eliminate both capital expenditures required for in-house installations and the need for on-staff resources to operate and manage in-house hardware and software. Since cloud service providers are able to leverage economies of scale, you not only benefit from lower costs, but also gain access to the latest technology and a more sophisticated infrastructure and processing environment than you might otherwise be able to acquire. Additionally, in a compliance-focused environment, leveraging the cloud shifts much of the burden of compliance to the provider, while also providing you and your customers with powerful security, disaster recovery, and business continuity resources.

Perhaps most importantly, by banking in the private cloud, you can shift your focus to what you do best: serving your customers. With flexible and scalable cloud resources, you can provide more services to a growing customer base without over-investing in hardware or risking capacity restraints.

In this paper, you'll discover the forces behind banks' renewed interest in cloud services, the benefits banking in the private cloud has proven to deliver, and how to choose a provider that best fits your bank's people-helping-people philosophy of delivering a superior experience to customers.

MARKET DRIVERS

Today, several market forces have made banking in the private cloud more attractive.



24% increase of firms outsourcing their compliance functions and another **43% anticipating growth** in their internal compliance teams.¹

A FOCUS ON COMPLIANCE

Compliance is becoming more and more demanding for banks. The number of regulations you have to contend with continues to increase, requiring you to spend more time assessing your technology platform in light of those regulations and providing information for reporting. According to the ninth annual Cost of Compliance report by Thomas Reuters, increased regulatory oversight has led to 24% of firms outsourcing their compliance functions and another 43% anticipating growth in their internal compliance teams.¹ Other top challenges financial institutions cite include Basel III, the Foreign Account Tax Compliance Act (FATCA), and the Dodd-Frank Act.² Through the private cloud, banks can maximize compliance efforts by reducing the number of information technology systems they're running.

THE NEED FOR BUSINESS CONTINUITY

Whether managing the risk of a local disruption or widespread disaster, you need a strategy that enables you to continue to provide service to customers. Since 1980, the U.S. has suffered 258 weather and climate disasters where the overall damage costs reached \$1 billion or more, cumulatively exceeding \$1.75 trillion. 2019 was the fifth consecutive year with 10 or more billion-dollar disaster events in the U.S.

The increase in disasters has heightened banks' awareness of the need for disaster recovery and business continuity, which in turn has helped shown the strategic value of banking in the cloud.

Banks are increasingly looking to cloud services to deliver more robust security and stability and to insulate their operations from disruptions.³

NEW SECURITY THREATS

There's also been no shortage of news about financial institutions, other businesses, celebrities, and even politicians succumbing to attacks from hackers. In fact, there's been a 165% increase in the number of publicly reported major cyberattacks on financial institutions since 2013, and regulation is adding to the cybersecurity pressure.⁴ But only 40% of CEOs feel their organization is fully prepared to handle a cyberattack.⁵ By leveraging cloud services for their core processing systems, banks are able to offload significant liability associated with security and fraud, while also reducing the human resources burden of needing additional staff to address those issues.

A RAPIDLY CHANGING, COMPETITIVE MARKET

Banks are further under growing pressure to provide new and innovative products to attract and retain customers. Banking in the private cloud gives you access to the latest solutions for not just core processing technology, but also for ancillary solutions needed to administer modern products. Therefore, you can bring new products to market quickly and at a lower cost.

BENEFITS OF BANKING IN THE PRIVATE CLOUD

There is no "one size fits all" deployment strategy of core processing technology. Banks have valid reasons for choosing cloud services over in-house deployment, or vice-versa. However, particularly in light of the aforementioned market trends, there are several key benefits banking in the private cloud has proven to deliver.

OPERATIONAL EXPENSE VS. CAPITAL INVESTMENT

Banking in the private cloud allows banks to turn IT from a capital outlay into a predictable operational expense. If you're looking to replace your core system, cloud services are even more enticing today due to the low one-time costs and the fact that it is a much smaller hit to capital than ownership. Fifty-two percent of respondents to a Cisco survey said they outsource services because doing so is more cost-efficient.⁶ Additionally, with in-house processing, banks may sometimes choose to over-invest in hardware to be prepared for anticipated growth and the need for future scalability. Conversely, they may be faced with a point of saturation with their current computing platform and be forced to quickly add more hardware. With private cloud banking you can contract for software and services on a basis that correlates to your actual need, which is scalable based on changing demand. Capital can then be redirected into areas that improve customer service and produce a positive return on investment.



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ECONOMIES OF SCALE

Banking In Cloud strategies – whether characterized as use of application service providers (ASPs), service bureaus, or Software-as-a-Service (SaaS) – allow banks to implement software more quickly, with less capital up front, and with often less training. Running an in-house data center does not allow a bank the opportunity to leverage costs and achieve economies of scale. In contrast, a cloud service provider is able to aggregate many banks and provide their processing on an environment that is still separate and secure, either physically or virtually, yet housed within the same data center or even on the same hardware as other institutions. A provider's specialization and expertise, lower cost structure, and economy of scale reduces a bank's operating costs. Therefore, banks increase the resources they have available to improve operations, offer innovative products, or otherwise enhance customer service.

FAST, EASY ACCESS TO THE LATEST TECHNOLOGY

When a bank manages its technology in-house, it is responsible for installation, upgrades, and ongoing maintenance. This requires IT staff, time, and money. Private cloud banking shifts the responsibility for many potentially complex IT processes to the provider. By speeding up and simplifying the process of new system deployments through prebuilt integration and by delivering ongoing upgrades, banking in the private cloud provides you with the benefits of the latest technology.

FLEXIBILITY

By delivering software solutions faster than banks can typically deploy them in-house, leveraging the private cloud also enables banks to bring new products and services to market quickly and respond more nimbly to competitive pressure. This flexibility is particularly valuable in the deployment of technologies and systems that are important in today's financial services market but that are ancillary to core processing, such as online banking and remote deposit capture platforms.

FOCUS ON CORE COMPETENCIES

Bank technology providers specialize in data processing. In other words, something that is a back-office function for you is a front-office function for the cloud service provider. Cloud services for non-core business functions frees your internal resources to focus on business-critical tasks. It also ensures that essential knowledge about software and systems is transparent, rather than locked within the experience of individual IT staff who will ultimately leave or retire.

BETTER SECURITY

A secure private cloud can offload much of the burden of keeping up with not only technological changes, but also security and compliance requirements. With cloud services systems are professionally maintained and data is secured in both a physical and technological manner that would be outside the resource capabilities of most banks.

SUPERIOR DISASTER RECOVERY

A secure private cloud can further offer the peace of mind of knowing your bank won't have to shoulder the burden internally for data recovery should an unexpected disaster event occur. With cloud services an experienced provider can offer a steady hand and superior RTO (enabling recovery in a matter of hours rather than days), plus automation tools that alleviate manual efforts for ACH and draft processing.

EASIER COMPLIANCE

Meeting compliance demands requires significant time and effort from your internal employees. Compliance staff must meet with regulators and external auditors and keep abreast of ongoing changes in requirements and regulations. With private cloud banking the bulk of responsibility for compliance around cloud applications is shifted to the provider.

DECISION CRITERIA

With cloud services banks benefit from preservation of capital as well, plus seamless access to advancing technology and the ability to focus on their core competencies – allowing them to improve service to customers and increase their competitive advantage.

In order to gain these benefits, however, you'll need to choose a provider carefully. Your due diligence should assess the following five minimum criteria:

When locking in a trusted partner to carry a bank into its next decade, a misstep can be expensive. Red flags should be waving if a core vendor is inexperienced, has poor third-party integration, is not investing in its technology, offers very limited solution choices, or is not seriously focused on compliance.



**FINANCIAL
STABILITY**



**MULTIPLE
DEPLOYMENT
OPTIONS**



**COMPREHENSIVE
SUITE**



**FLEXIBLE
ARCHITECTURE**



EXPERIENCE

1. **Financial stability.** Choose an established provider with the financial wherewithal to advance system capabilities and invest in infrastructure. You need to ensure that you're partnering with a provider that has both the resources and the commitment to fulfill its promises and advance its computing platform.

2. **Multiple deployment options.** Select a vendor offering application software that can support both in-house and cloud operating environments. Even if you choose to cloud services today, you may ultimately determine that an in-house environment best meets your needs as circumstances change. Selecting a provider that offers both environments makes the change process a seamless transition, rather than a complicated conversion.

THE NATIONAL INSTITUTE OF STANDARD AND TECHNOLOGY OUTLINES THE VARIOUS DEPLOYMENT OPTIONS AVAILABLE⁷:



Private cloud. The cloud infrastructure is provisioned for exclusive use by a single organization comprising multiple consumers (e.g., business units). It may be owned, managed, and operated by the organization, a third party, or some combination of them, and it may exist on or off premises.



Public cloud. The cloud infrastructure is provisioned for open use by the general public. It may be owned, managed, and operated by a business, academic, or government organization, or some combination of them. It exists on the premises of the cloud provider.



Community cloud. The cloud infrastructure is provisioned for exclusive use by a specific community of consumers from organizations that have shared concerns (e.g., mission, security requirements, policy, and compliance considerations). It may be owned, managed, and operated by one or more of the organizations in the community, a third party, or some combination of them, and it may exist on or off premises.



Hybrid cloud. The cloud infrastructure is a composition of two or more distinct cloud infrastructures (private, community, or public) that remain unique entities, but are bound together by standardized or proprietary technology that enables data and application portability (e.g., cloud bursting for load balancing between clouds).

3. **A comprehensive solution suite.** Cloud services are increasingly popular for core processing systems that banks use, but you need a variety of other solutions as well. Although those solutions can be sourced from any number of third-party providers, you gain advantages in dealing with a core-provided product suite. In fact, financial institutions are looking to simplify their computing platform, and are selecting their core vendor instead of a third party for a variety of reasons including integration, price, and vendor management, all of which tie back to a lower cost of ownership.
4. **Flexible system architecture and scalable hardware platforms.** “Vendor lock” has been one of the chief drawbacks of in-house environments over time, particularly as banks struggle to integrate core systems with other platforms and make necessary upgrades. A private cloud partner should provide a platform based on open architecture and that is both flexible and scalable to meet your changing needs over time.
5. **Experience.** Banking in the private cloud is as much a relationship of trust as it is of technological capability, particularly with mission-critical core systems. You need to make sure your provider has demonstrated the ability to deliver software and services over time, including maintaining a proven disaster recovery and continuity plan.

MAKING THE CHOICE

Ultimately, your culture and your strategy will determine whether you should use in-house deployment, cloud services or a combination of the two.

For banks that choose cloud services, Jack Henry provides the ability to leverage an extensive infrastructure and sophisticated processing environment, eliminating the significant capital expenditures required for in-house installations, the need for resident resources to operate and manage in-house data center operations, and long-term capacity planning. Cloud service also provides banks with the ability to narrowly focus on their core competencies with seamless access to advancing technology, strict regulatory compliance, and ongoing access to industry, technology, and security experts. Jack Henry is uniquely positioned to support both in-house and cloud environments and to leverage market-leading platforms for enterprise-wide automation.

SOURCES

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- ⁷⁾ SP 800-145: The NIST Definition of Cloud Computing.

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