



Bringing cloud benefits to treasury banking

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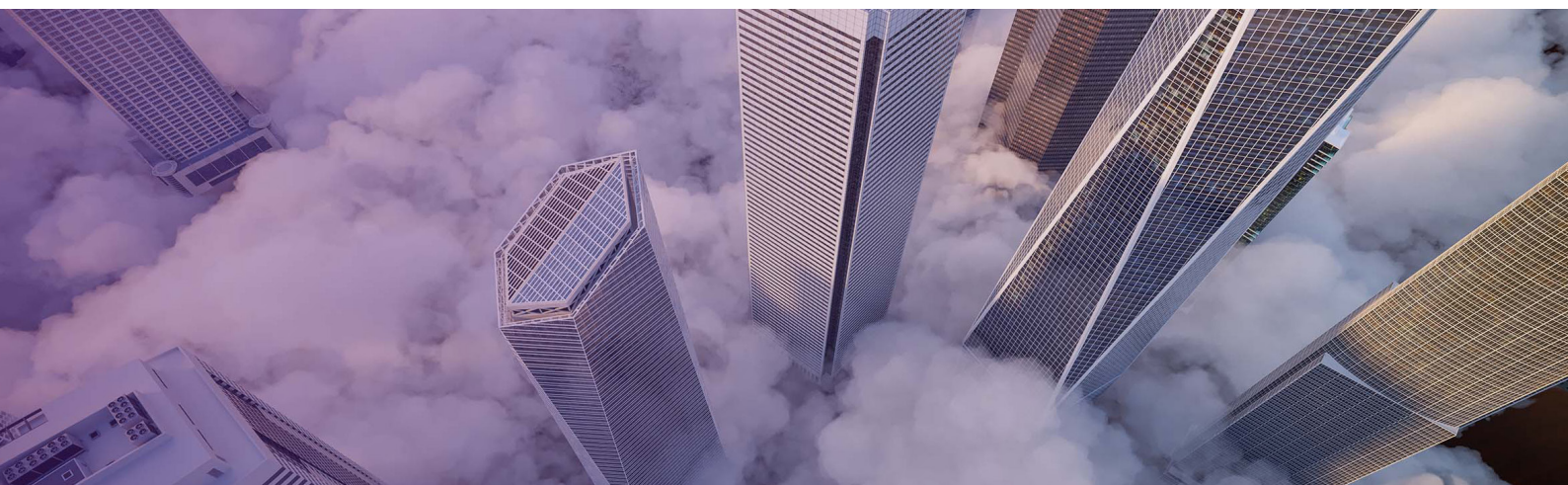
Following our recent webinar — hosted jointly by Luxoft and Finastra — we intend to explore how the cloudification of treasury is driving digital transformation, reducing cost and accelerating innovation, and how a bank's treasury should strategize its cloud journey.

The business impact of the pandemic has not only accelerated the pace of digital transformation and cloud adoption, but has also made it more complex. Banking customers are becoming more demanding than ever. Under extreme pressure to reduce cost

while still being innovative, banks are now struggling to strike a balance and need to find a more holistic approach to tackling their digital transformation.

Together, Luxoft and Finastra understand how the cloudification

of treasury can help banks drive digital transformation, reduce capital cost and accelerate innovation. By doing so, banks can enable more ambitious transformation initiatives while leveraging trusted partners.



How does the treasury technology landscape look today?

The banking industry has been going through a massive transformation in recent times. There is an increasing focus on digital transformation — most notably in retail banking, but also on the corporate and markets side of the industry.

For a bank's treasury, specifically, there are three main industry drivers:



Regulation and compliance

The significant complex set of rules, regulations, policies, global and local standards with which treasury needs to remain compliant



Cost pressure

This second factor is driven by the first. With a more complex operational framework, cost tends to increase and the need for cost optimization becomes more essential than ever



Pace of technology disruption

Banks that can quickly embrace modern technology and use it to reduce operational cost, introduce innovative products and business models, and comply with regulations, will have an advantage over banks that have not embraced such technologies

These factors have driven many of the trends impacting the financial services market. Research studies carried out by leading organizations have identified some very interesting statistics:

- 62% of financial services CEOs have put digital transformation on their top priority list (**Gartner 2018 CEO/CIO Survey**)
- Organizations that are early adopters of digital transformation are able to realize 35% higher revenue growth compared to organizations following a traditional business model (**HFS Research: 2018**)
- Cloud adoption by banks is increasing. Specifically, 75% of banks and financial services organizations claimed the use of multi-cloud and hybrid-cloud strategies, while 50% of bank workloads are already running in hybrid-cloud mode (**Gartner Predicts 2019, IDC Hybrid Cloud 2018**)

What are the key challenges driving the need for digital transformation in treasury?

Multiple factors are creating unique challenges for bank treasury divisions:



Reduced margins

We are seeing significant commoditization of treasury products, driven by standardization of treasury instruments as well as increased electronification.



Electronification of flow products

COVID-19 has supercharged the shift towards electronic trading and is expected to disrupt the entire bond market ecosystem. JPMorgan recently surveyed its asset management clients, and they predicted that 40% of their corporate bond trading will be electronic by 2022. Almost half of all government bond trading is already electronic and that figure is expected to jump to two-thirds by 2022 (**FT Opinion Markets Insight 2021**).



Legacy technology versus disruption

Banks are not able to keep up with the rapid pace of technology disruption. On-premises legacy technology stacks are slowing down the rapid rollout of new products or compliance updates. However, legacy infrastructure modernization is a multi-year process.



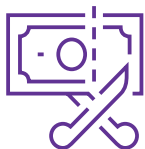
Digital innovation

Digital is becoming mainstream now, with artificial intelligence (AI), machine learning (ML) and big data at the heart of these digital models.



Cost efficiency

The push towards a leaner cost base is not justifying high, up-front capital investments in infrastructure and hardware.



Future unpredictability

Banks face understandable difficulties in planning for the next 3 to 5 years of volume growth.



Risk management

Increasingly, banks need to be able to run resource-intensive risk calculations such as pricing and simulations.



With regard to the delivery of new technology platforms for treasury divisions, further challenges include:



Time to market

When rolling out new products or regulatory compliance updates, changes are needed in multiple systems leading to a lengthy process.



Cost planning and transparency

Understanding the cost of hardware and how to plan it properly in the light of rapid technology change, as well as the complex dependency on vendor solutions and strategies.



Workforce mobility

How to mobilize the right skill at the right time in the right location — a challenge that has been highlighted during the pandemic, in particular.

What are the key benefits of cloud transformation for treasury?

We are now seeing banks actively talking about public, private and hybrid cloud adoption. Typical questions associated with any change or transformation are: *"What benefits can treasury expect from this change?"*

and, *"Are these benefits attractive enough for the decision-makers to proceed with cloud transformation?"*.

It is clear that the impact of Covid-19 has hugely compressed the timeline for digital transformation. As Microsoft CEO, Satya Nadella, said early in the pandemic, *"We've seen 2 years' worth of digital transformation in 2 months"* (**Microsoft Earnings Release FY20 Q3**).

Cloud adoption has now become a topic of discussion at board level in banks, so there is now a push for cloud adoption coming directly from the C-suite.

The key business benefits of cloud for treasury include:



Cost reduction

While cost efficiency is one of the most frequently highlighted benefits of cloud, we encourage clients to look at the wider advantages.



Improved customer experience and client servicing

Cloud enables banks to offer a range of new digital services. They can also derive intelligent insights by leveraging data using the massive volumes of in-house structured data as well as unstructured data available from external sources.



Reduced time to market

As well as accelerating implementation of solutions and innovative product launches, cloud enables continuous delivery of always up-to-date, 'evergreen' IT.



Simplified and more resilient operations

Cloud supports remote working and remote servicing. Banks can run a consolidated number of systems with centralized control.



Increased security

Contrary to early concerns about cloud, major cloud service providers have invested heavily to provide data security standards that exceed typical on-premises security.



Demand-based scaling of computing power

Cloud enables banks to meet sudden or seasonal spikes and run heavy-duty risk simulation calculations on demand.



Agile working processes

Cloud supports modern agile operations and development models for banks, such as DevOps and CI/CD (continuous integration and continuous delivery).



What are the main obstacles to cloud transformation of treasury?

As we have seen, the benefits of cloud for treasury look persuasive and many banks are starting to consider adopting it but, as with any transformation, it might not be an easy change.

To be realistic and ensure readiness for the transformation

journey, we need to understand the potential obstacles banks may face during the process.

While cloud has long been on the to-do list of many banks, it has often been pushed down below other priorities. However, during the pandemic, the sudden pressure

to adopt cloud has presented some unique challenges for banks.



Data security concerns

One of the key issues being discussed is data. Banks have access to a large trove of customer data which is highly sensitive in nature. Obviously, banks have been extremely protective of this data. Further concerns have come from high-profile data breaches in recent years, such as those at JPMorgan Chase in 2014 and Equifax in 2017



Data localization requirements

Many countries and regions have strict data localization requirements. This can present a challenge to cloud transformation, as not every region will have in-country cloud datacenters operated by the major providers



Fragmented regulations across jurisdictions

When running bank operations across multiple countries or regions, there is often a lack of regulatory harmonization — especially for treasury divisions. This makes cloud adoption more challenging. If you have to take a different approach for each location, the benefits are not uniformly realized



Organizational alignment

Unless cloud adoption is driven from the top of the organization, the process can lead to friction between teams and divisions



Awareness and robust cloud strategy

Successful cloud transformation relies on the availability of the right skill sets. The complexity of a multi-phase cloud migration can also prove challenging if not carefully planned and implemented



What does the typical cloud journey look like for treasury?

Now that we have an understanding of the challenges and potential obstacles, the question is how to proceed? What would a typical digital journey look like, what key steps should we take and what is the realistic timeline to progress this journey?

Cloud lays the foundation of a modern operating model for banks and financial institutions, and enables them to achieve the desired business transformation. In the context of treasury, cloud adoption is the first step towards a true digital treasury.

It is crucial to understand that a bank's cloud journey does not have to be a binary choice — on-premises versus cloud-native. The preferred approach is more of a continuum; one that allows for incremental development and adoption with tangible business benefits gained at each stage.

To be effective, migrating to the cloud requires a clear roadmap, with alignment from business and technology stakeholders to avoid a cumbersome and excessively complex process. But what are the practical options?

Cloud testing

Migrate test systems onto cloud while retaining the live environment on premise. This can deliver quick wins with less potential for major disruption or risk.

Cloud services

Consume certain services (such as regulatory reporting or risk measurement computations) from cloud-based applications while retaining the core operations on premise. This allows the bank to access best-of-breed capabilities requiring specialized solutions or higher computing power.

Private cloud

Migrating the application hosting to a private cloud, hosted by a third party. This reduces the burden on in-house IT teams.

Managed services

Moving to a managed services model — working with a systems integrator to outsource the infrastructure, application hosting (on public, private or hybrid cloud), deployment, support and upgrade

process. Outsourcing to dedicated expert partners allows the bank to focus on its core business. It enables up-to-date and evergreen IT, lower infrastructure and resource costs, and reduced TCO.

Whichever cloud journey you choose, your roadmap will enable you to break it into tangible deliverables and measure incremental success. Your strategy should include the operating model around cloud, and how to link it to production support and release management.

Remember, the cloud part itself is not so complex, it's all the areas around it (including usage and monitoring) that require careful consideration and management.

What are some real-world insights on how cloud transforms treasury?

Finastra provides some of the industry's leading treasury software, such as Fusion Kondor and Fusion Risk, while Luxoft brings expertise at implementing Finastra software in the cloud for treasury banks. So, how does a typical Finastra cloud implementation project work?

Some of our clients using Finastra software for their treasury, want to move it from on premises to cloud infrastructure. In these situations, the process is more about the operations risk management process around the Finastra solution, how to enable it on cloud infrastructure and how to increase the level of automation. We make sure to provide full transparency of that cost over a multi-year agreement, where the client knows in advance how much it will cost them.

Similarly, for banks seeking a new treasury solution, we offer a very fast Finastra cloud implementation. It is not just the product, but also all of the surrounding elements like production support, maintenance, interfaces and how to integrate

this solution into the bank's overall ecosystem.

The key added value here is that our joint offering for treasury is a turnkey cloud solution. It is quick to implement and allows the bank to reap benefits at an early stage. They can see this helping them drive more business and increase profitability at a reduced cost.

If you look at the projects that banks are running today, especially on the treasury and risk side, the vast majority are focused on delivering compliance with regulatory requirements or market standards. For example, this might be calculation of market risk capital charge, as per FRTB guidelines. Many banks are also running massive LIBOR transition projects.

In addition to these regulatory compliance projects, banks are looking to deploy advanced balance-sheet-optimization techniques, leveraging the latest technologies such as AI and ML for scenario generation as well as simulation.

Established banks are also trying to launch digital platforms to compete with new, purely digital players. Due to their siloed application architectures and legacy technology stacks, banks have not been able to roll out these projects fast enough. Cloud-based solutions which support these capabilities can help with faster deployment.

By adopting cloud, banks no longer need to undertake massive upgrade projects to ensure version compatibility, or develop integration for trading book data or market data, and so on. Also, banks don't have to worry about the limitations of their core technology stack and whether they can support the rollout of new technologies. They can achieve quicker time to market, without disrupting their core operations.

What does the technology future look like for treasury?

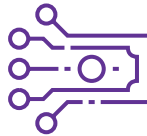
Continuous change is the nature of business, so it is vital for mature organizations to look to the future proactively, and be ready for these changes. What might treasury technology platforms look like 5 years from now?

Like the rest of the financial industry, treasury will be overwhelmingly digital in the future, as the following predictions demonstrate.



Digital distribution channels

We have already seen increased electronification of trading activities. Treasury will also be reaching out to its customer base and distributing products in a more digital manner.



Open digital infrastructure

The treasury infrastructure will be more open and API-driven. This means that customers will be able to access certain bank services such as pricing, transaction reporting and exposure reporting directly, in their own systems through API-based connections.



Using cloud as an analytics platform

Treasuries will be leveraging new technologies (such as AI, ML and big data) to drive informed decision-making. This could be to help traders with market-sentiment-based analysis, so they can formulate their trading strategies or make recommendations to their corporate customers.



Consuming external services

Treasuries will be taking a more collaborative approach and accessing innovative external services. These could be niche applications such as Collateral-as-a-Service, or Regulatory-Reporting-as-a-Service. This will enable more flexibility and agility, as services can be scaled up or down on a pay-as-you-use basis.



Moving toward a flexible technology operating model

Treasuries will focus on core competencies (such as sales, strategy, planning and regulatory engagement), while outsourcing other aspects (such as infrastructure, security, deployment and analytics) to large technology players.



Common digital infrastructure

Increasingly, banks will be accessing common processing infrastructure such as blockchain-based, trade-processing infrastructure.

Cloud will be an integral part of the equation for each of these future developments.

Take the next step to treasury transformation

To find out more about the cloud transformation of treasury, please get in touch with us to continue the discussion.

Contact us



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Specializing in capital markets and risk management, Abhijit works closely with banks and financial institutions to help transform their treasury and risk management activities through effective adoption of technology. With over 18 years' experience in the financial industry, Abhijit focuses on delivering tangible business benefits to Finastra customers in their transformation journey. With the ongoing disruption in the banking sector, Abhijit is a passionate advocate for banks to leverage new technologies to deliver superior customer experiences through innovation and collaboration.

Prior to his current role, he held several leadership positions across solution consulting, business development, pre-sales and software development with a range of financial software vendors as well as a global bank. He holds a master's degree in Business Administration and a bachelor's degree in Mechanical Engineering.



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Ihyeeddine joined Luxoft in 2016 and was part of the transformation journey where he led the EMEA systems integration business, working with partners and clients to double the size of the business and position Luxoft as a global leading system integrator.

Prior to joining the company, Ihyeeddine worked for SGCIB, BNP Paribas, Murex and Wevoo, where he developed project methodologies, new practices, and solutions for major capital markets software packages. Based in London, Ihyeeddine's area of focus is creating business value through automation and innovation.

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About Luxoft

Luxoft is the design, data and development arm of DXC Technology, providing bespoke, end-to-end technology solutions for mission-critical systems, products and services. We help create data-fueled organizations, solving complex operational, technological and strategic challenges. Our passion is building resilient businesses, while generating new business channels and revenue streams, exceptional user experiences and modernized operations at scale.