The essential financial cloud—without the risk

A playbook for board discussions about core systems on the cloud

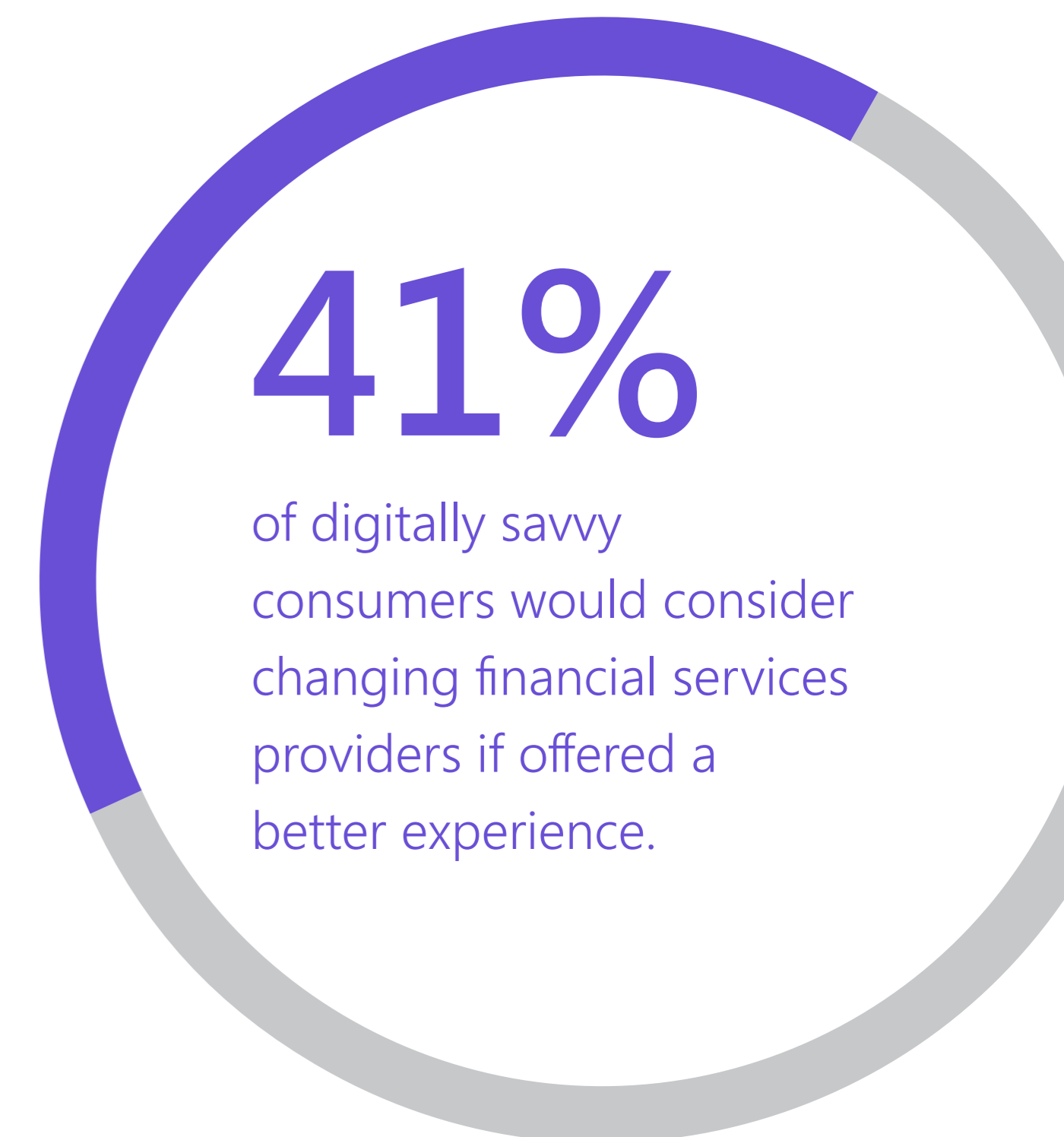**FINASTRA**

Microsoft Azure

Framing the discussion:
The risks of not keeping up with your account holders—and competitors

Ready or not, consumer demands combined with the growing emphasis on remote solutions are impelling financial institutions into the cloud age. The need to provide helpful technologies in a time of challenge has accelerated consumer expectations for their financial partners to give them relevant content, useful apps, timely alerts, outreach, self-service, and more. This could result in improved offerings and more efficient operations going forward, but it's not just a matter of community banks and credit unions staying nimble when the community needs change. That's part of smart operations. You need more.

In addition to fostering their traditional strong community bonds, smaller financial institutions need to respond to the current unprecedented shifts in consumer expectations—without losing that local touch. It's tough because consumers have discovered for themselves that clean, easy-to-use, and powerful user experiences are possible in retail (and finserve!) apps, products, and services. They want their banking partners to act the same way. How much do they want it? A lot. A recent study found that 41% of digitally savvy consumers would consider changing financial services providers if offered a better experience.[1] Financial institutions can maintain sticky

relationships with consumers by recognizing and catering to their financial needs. Your members or customers will sacrifice your neighborly feeling for the convenience of modern services and products.

41%

of digitally savvy consumers would consider changing financial services providers if offered a better experience.

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From an internal point of view, executives are seeing the benefits of modernization, including:

- Reduced costs through automation

- Improved operational workflow

- Modern, industry-standard hardware that's updated by the provider, virtually negating the costs and price-to-performance ratio of on-premises data centers

Unfortunately, after years of underinvestment, existing core banking systems and applications haven't been optimized to take advantage of the new technologies and application management approaches available through the cloud and platform evolution. All these consumer and business benefits can only be achieved through a cloud migration of core banking services. And that's perceived as a risky proposition by many board members and other stakeholders. But community banks and credit unions are falling further behind the larger institutions in digital capacity. Only 24% so much as plan to adopt cloud, whereas 31% of larger banks already have cloud-based systems in place.[2] The gap is widening.

And the bottom line on the financial side? Mercator Advisory Group breaks it down very nicely in this anecdote:

Say a financial institution with $1 billion in assets budgets approximately $4 million to operate its IT infrastructure.
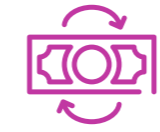
Of this IT spending, approximately $1.6 million is associated with IT headcount and the other $2.4 million is spent on hardware and software.

So a 20% improvement in operational efficiency should enable the reassignment of two to three people to tasks that will help the institution further transform the business.
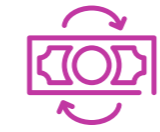
A reduction of 40% in platform costs through cloud computing would save almost a half million dollars annually.[3]

It's a pretty compelling and succinct argument. But money isn't the only consideration when you're making this case to a board and stakeholders. In this e-book, we'll give you a quick primer on the methods we use at Finastra to overcome barriers, and open doors to discussion about cloud-based core systems—and more importantly, how to move forward. First, let's look at the community bank's or credit union's current situation:

Dupaco

Mini-case study for discussion

**Dupaco Community Credit Union:
How automated workflows lead to stronger customer relationships**

Dupaco Community Credit Union is a full-service financial cooperative headquartered in Dubuque, Iowa. They provide more than 109,000 members with a range of cost-effective financial, insurance, and investment services. As a small institution, Dupaco must continually fine-tune their operation for efficiency, accuracy, and customer engagement. To streamline key processes and improve service, they turned to Fusion Phoenix's workflow manager to automate common tasks and processes. The success of this deployment has allowed Dupaco to release front-line employees from repetitive manual work, giving them more time to dedicate to building relationships—making for a more rewarding member experience.

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What's causing the pain: Identifying organizational concerns

Before you get into talking about the future of your core banking system, it's important to agree on the present. Here are some points for discussion to find where your stakeholders find common ground on the issues facing your institution. Having facilitated hundreds of these discussions, we've found that it's important to explicitly agree as an organization on where you need to move ahead. Consider the fate of Blackberry, the once-ubiquitous PDA (personal digital assistant) that was so confident of its standing that it never saw the entire industry catch up and surpass them—making them a footnote to the smartphone era.

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Beyond the worries and threats addressed above, your legacy systems may be hampered by a number of issues:

Limited agility to diversify

- Do your legacy systems have fragmented components that directly hinder account holder service, profit, agility, and efficiency?

- Is it an institutional goal to expand product offerings with higher efficiency and provide best-in-class customer or member experience?

- Are you restricted by legacy systems that force you to manage fragmented components?

Barriers to meeting account holder expectations

- Are your legacy systems closed and lacking the agility to innovate and respond quickly to evolving consumer behavior and demands with open APIs?

Workflows and architecture that strain costs

- Do your workflows keep you from improving efficiencies and driving tasks to completion while reducing cost?

- Do your legacy workflows lack integrated systems and cause unnecessary strain on resources while restricting your ability to provide a best-in-class user experience?

- Do you find that the IT budget and resources required for maintaining legacy systems coupled with the challenges to find, acquire, and retain the necessary hardware and people skills are a barrier to innovation?

Technology silos that limit data insights and customer 360° views

- For instance, are your account holder views in real time— including commercial accounts, personal accounts, loan balances, alerts, and more?

- Are your account holders forced to jump from system to system to see their accounts rather than having all their information in one convenient place?

- Do you have challenges in running reports and doing analysis for better decision-making? Are you reliant on third-party providers to enable modern services and capabilities?

COMMENCEMENT BANK

Mini-case study for discussion

Commencement Bank: The benefits of open architecture

Commencement Bank in Tacoma, WA is a small commercial bank specializing in very small business customers. They needed an open architecture that didn't require a specialist to pull specific data from the system. By deploying Fusion Phoenix they were able to keep lending to small businesses without adding staff. Employees can now access prospect, customer, or analytic data right out of the system easily and intuitively. All the Fusion Phoenix data is visible in one place, so an employee can pull up the relevant view in a moment while they have a customer on the phone or need it right away.

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Basic terms for your discussion

API

An application programming interface (API) is an interface that provides programmatic access to service functionality and data within an application or a database. It can be used as a building block for the development of new interactions with humans, other applications, or smart devices.

Cloud computing

Cloud computing is a style of computing in which scalable and elastic IT-enabled capabilities are delivered through a network of remote servers to store, manage, and process data, rather than a local server or a personal computer.

Core banking system

A back-end system that processes daily banking transactions and posts updates to accounts and other financial records. Core banking systems typically include deposit-, loan-, and credit-processing capabilities, with interfaces to general ledger systems and reporting tools.

Legacy systems

An information system that may be based on outdated technologies, but is critical to day-to-day operations. Replacing legacy applications and systems with systems based on new and different technologies is one of the information systems (IS) professional's most significant challenges.

Platform

A platform is a group of technologies that are used as a base upon which other applications, processes, or technologies are developed. For instance, an app store is a platform on which many different apps are available.

Solution

An implementation of people, processes, information, and technologies in a distinct system to support a set of business or technical capabilities that solve one or more business problems.

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Cost and security: The twin barriers to an open and productive discussion

Those in leadership positions at financial institutions have an understandable reticence to move highly confidential account holder information to the cloud. It's crucial to be able to hold a conversation with leadership that shows them how the cloud works in favor of business. Here are some ideas to get you started on each.

Cost and scope of migration to the cloud

The first thing that may come up as you discuss moving to the cloud is the perceived enormity of the costs and the disruption the project might cause. Core banking systems may reside in a data center into which the institution has invested huge amounts of money. This leads to the perception that migrating all that data is like trucking: it costs the same to lug it out as it costs to lug it in. Your leadership team may want to know what the compelling and immediate need for such a drastic and expensive step is.

Suggest to stakeholders that a solution like Fusion Phoenix isn't a new idea—it is fast becoming a standard of doing financial business. In fact, it is a modern core built entirely on Microsoft technology. That's also a key consideration going forward because as new technologies emerge, Fusion Phoenix can integrate with them through its progressive open API architecture. This provides financial institutions with both the stability of a long-proven Microsoft system with the agility to provide critical new and emerging banking services. In addition to the agility to jump on fleeting opportunities, the on-demand nature of the cloud means fewer infrastructure investments are required as you scale, or as you add services.[4] And with its foundation on Microsoft, you know the infrastructure will be around as an innovation platform for years to come.

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Security concerns about the cloud

Security is trust, and trust is what banks and credit unions are all about. It's understandable that your literal trustees would question a relatively new model—and it's only responsible. Your stakeholders will want to be assured that your institution's systems will remain distinct and separated from other financial institutions' systems.

The cloud often feels communal to those new to the idea—that's a misunderstanding of cloud structure and security. They may ask you how, if you don't store your data locally, can you prevent malevolent or unintentional loss of data? Bank and credit union executives may be not aware that cloud vendors don't keep the data in the cloud. Here's a quick explainer:

In an enterprise-class cloud environment, although the computing resources will be multi-tenant, the data will not. From a data security standpoint, the cloud provider takes a number of measures that ensure security, including:

- **Physically separating each financial institution's data** onto distinct physical disks, even if using virtual storage solutions and only storing that data in data centers known to and approved by the customer.

- **Managing the back up and/or replication** of that data in a predictable manner, as set out in either published terms and conditions or a custom service level agreement.

- **Providing an advisory service** for financial institutions as an integral part of the onboarding process to ensure that the customer's security requirements are fully understood and reflected in the migration process and the deployment architecture.

- **Providing full audit capability** at all times so that financial institutions can ensure compliance with the terms and conditions of the bespoke service level agreement.

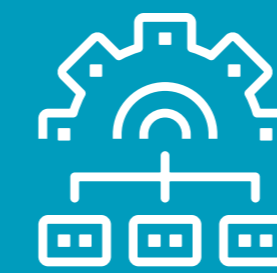# Food for thought:
The business impact of Fusion Phoenix

26%
reduction in total cost of ownership

$275,000
savings in efficiency gains per year

87%
reduction in FTE required for processing promotions programs

60%
Up to 60% less time needed to open a new account

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Proof point:
How cloud works for 80% of the world's largest banks

The question of which cloud provider is critical. Finastra partners with Microsoft Azure for banking core systems in the cloud. Why? Start with the fact that more than 80 percent of the world's largest banks and more than 85 percent of the global, systemically important financial institutions are using Azure. Microsoft spends over $1 billion on cybersecurity to stay ahead of the curve on potential security threats. That's far more than an individual financial institution could afford. Beyond that, Azure addresses data privacy, residency, and other privacy issues with new hybrid models so both on-premises and cloud environments work consistently and securely across organizations. From a regulatory standpoint, Microsoft Azure ensures compliance with international and industry-specific standards, including GDPR, ISO 27001, HIPAA, FedRAMP, SOC 1, and SOC 2.

For these reasons and many more, large organizations from healthcare to government are putting their trust in the Azure cloud. For instance, Microsoft Cloud for Healthcare is being deployed by systems from Provident St. Joseph Health to Northwell Health to bring together trusted and integrated capabilities for customers and partners that enrich patient engagement and connect health teams to help improve collaboration, decision-making, and operational efficiencies. **Government agencies such as The US Department of Defense have turned to Azure for its geo-redundant, distributed cloud security among other innovative security measures.**

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Moving forward: Agree on the criteria for a cloud solution to enhance your institution

So, what do you need a cloud-based core system to do? It can be a difficult question if you don't know what a cloud core system can do. Over the years, Fusion Phoenix has established some benchmarks that we meet with our products. We recommend you base discussions on these criteria:

Does it enable real-time, 360° account holder visibility?

One of the most dramatic differences a core system like Fusion Phoenix can make has to do with visibility. It should give you a complete picture of your systems in one dashboard, with front, middle, and back office connected. By doing this, your system can make connections between account holders, members, and customer needs to the right insights—enabling you to offer more useful and profitable services. This makes your financial institution a consumer-focused, profitable sales machine.

What system can facilitate a smooth implementation for a best-practice based transformation?

Fusion Phoenix is an example of a banking core built to face future needs and advancements in a trusted cloud environment (Azure). Discuss with leadership how your transformation or implementation should happen. How will you componentize your journey for optimal benefit?[5] Finastra recommends a tightly pre-integrated solution like Fusion Phoenix that allows a cost-effective approach to an enterprise-grade solution without disruption.

How will you optimize time to value, cost to achieve, and the total cost of operation from your chosen cloud solution now and in the future?

Ask what the organization expects from a cloud partner, and how cloud core systems will garner your institution the benefits of the cloud now and in the future. Can it leverage technologies like AI, machine learning, and big data and analytics as part of its technology stack? Answers to these questions will allow you to be more predictive and prescriptive and less reactive by knowing exactly what customers or members want before they even ask for it. They'll also prepare you to meet and maximize new technologies that aren't even on the horizon yet.

How easy will it be to integrate all your systems and to deploy modularly with a flexible and open platform?

Agree on expectations for how your solution should enable always-up-to-date security and compliance, and a base to embrace new and future technologies like block-chain-as-a-service. It should have the structure to extract the value from all of your data repositories to enhance operations through streamlined processes and other enhancements.

How does your core system increase efficiency and reduce expense to drive growth?

If it doesn't improve top- and bottom-line results for growth, efficiency, savings, and risk reduction, then there's something that needs rethinking.

FMS Bank

Mini-case study for discussion

FMS Bank: Streamlining third-party services

FMS Bank is a $185 million community bank in Fort Morgan, Colorado, with two locations. They were juggling more providers than they needed, and that meant more than just management time. It meant coordination of systems, teams, and workflows both inside and outside the institution by combining them into a company that could singlehandedly keep up with all their constant compliance changes. In turning to Fusion Phoenix, FMS Bank was not only able to reduce their reliance on third-party vendors by nine, they also introduced a new mobile banking product to customers—all through a holistic partnership with a single strategic partner: Finastra.

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