

BENEFITS OF A CLOUD-BASED CORE BANKING SOLUTION

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Abstract : Cloud-based systems can help banks automate workflows, deliver new services faster, boost efficiency and deliver savings. Gartner defines a core banking system, as “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.” Basically, core systems are the mission-critical systems that facilitate almost every major transaction for banks.

Currently, only a small percentage of banks have transitioned their core banking systems to cloud-based platforms. Other banks without on-premises core systems often outsource their data to private clouds through their core provider. However, industry analysts and experts expect more banks to migrate as they modernize the systems. Cloud-based core banking lets banks automate processes, deploy new services for customers in a timelier fashion and gain efficiencies that can redound the bottom line. To successfully make a transition to cloud-based core banking, bank IT leaders need to educate them, find the right technology partners and be open to a new way of doing business.

Index Terms- Cloud, core banking.

I. INTRODUCTION

Cloud computing lets people use the internet to tap into hardware, software and a range of related services on demand from powerful computers usually based in remote locations.

Successfully enabling the widespread adoption of cloud computing could add €250 billion to European GDP by 2020, thanks to greater innovation and productivity, according to research conducted by International Data Corporation on behalf of the EC. Nearly four million new jobs could be created as a result.

This would amount to more than 3.8 million new jobs, although this number does not include jobs lost to cloud-related business reorganizations and productivity gains.

Cloud computing can help meet all these challenges. There are few areas of transaction banking it does not touch — from cash management, trade and supply chain finance to payments, mobile banking and business analytics. The key to competitive advantage will lie in the know-how brought to bear on behalf of clients.

All this momentum is building at a time when banks are under increasing pressure to use their IT budgets more efficiently, while competition from non-bank payments providers is much tougher and the need to serve clients better is becoming more acute.

But it is not a technological Valhalla – there are disadvantages too.

II SIX BIG BENEFITS OF THE CLOUD:

2.1. Cut costs: cloud computing means banks will not have to invest heavily in dedicated hardware, software and related manpower. It is much easier for them to update their IT infrastructure and the cloud’s modular, pay-on-demand model means they pay only for the hardware and software they need.

2.2 Improve flexibility and scalability: the cloud gives banks the ability to respond quickly to changing market, customer and technological needs. They can scale up and scale down technology according to requirement. The ability to respond quickly will be an important competitive edge.

2.3. Increase efficiency: banks will enjoy improved efficiency ratios and operating leverage. The standardization inherent in the cloud could make it easier to integrate new technologies and applications in the future. Because technology and business operations can be much more closely aligned, the cloud gives banks a golden opportunity to drive out complexity.

2.4. Serve clients faster: cloud computing makes new and bundled products and services easier to develop and launch, either on a stand-alone basis or in partnership. It eliminates procurement delays for hardware and software. Banks will be able to boost computing power to meet demand peaks and provide the latest treasury solutions without needing to worry about whether the technology is up to date. Corporate will be able to access bank systems using web browsers from anywhere at any time.

2.5. Forge stronger client relationships: The combination of big data and potentially unlimited computing power will allow banks to develop systems capable of providing better insight into clients and make better decisions on their behalf. Services could become more customised.

2.6. Bring clients closer to their clients: transaction banking eases payments between buyers and sellers. At the moment the activities needed to process payments are inherently inefficient because they use different technology. But buyers and sellers could be brought together on shared applications in the cloud.

III THE FIVE MAIN CHALLENGES:

3.1. Security and compliance: maintain at all times the security of data. Banks need to demand stringent safety measures from suppliers and ensure new applications meet the latest and most rigorous security standards. Service Level Agreements (SLAs) are a must.

3.2. Reliability: ensure that applications and data are always available in the event of a natural disaster or an unpredictable event. Banks need to have stringent SLAs in place, complete with guarantees, end-game scenarios and remedies if a provider fails to meet service levels.

3.3. Cloud management: achieving visibility and measuring performance are harder to do, especially if, as seems likely, large banks will source cloud services from several providers and to use them for both internal – or private – and external, or public, services. This could result in a bank having to handle multiple security systems, and the need to ensure all parts of their business can communicate with each other and where necessary with clients. I

Increased use of various technology infrastructures and a mix of different cloud environments internally and externally mean banks will need to develop fully-fledged cloud management platforms. They will be a necessity to ensure banks can fully realize the cost savings and flexibility benefits of cloud computing.

3.4. Interoperability: banks will need to ensure data and applications can be moved across cloud environments from a number of providers. They should look to develop a single interface and management layer that can work across different platforms internally and externally.

3.5. Regulation: the rules governing the cloud vary from country to country. Many countries' data protection laws impose constraints on where data is kept, limiting take-up. This is why the EC's move to regulate the cloud is welcome.

IV CLOUD-BASED CORE BANKING HELPS BANKS

Cloud-based core banking is still relatively new, and has only been prevalent in the U.S. for about three years. According to Adobe's 2018 Digital Marketing Study, only seven percent of financial institutions have implemented a cloud-based technology stack.

Christopher McClinton, senior vice president of payments and operations at the American Bankers Association, said earlier this year that ABA's "Core Provider Survey" found that banks are generally receptive to cloud-based core banking. As BizTech reported earlier this year: "According to the survey, **29 percent** said they would consider it, **50 percent** said they were unsure and **21 percent** said they would not consider it. While that obviously reveals a great deal of uncertainty, McClinton said one way to look at the results is that nearly 80 percent of bank respondents are at least open to the idea of cloud-based core banking."

"Banks and their IT service providers ought to start now in formulating their competitive response to the **coming age of banking in the cloud**," he wrote. "The migration of CBS platforms to the public cloud presents a rare opportunity to achieve two conflicting objectives at once: reducing costs and capital requirements while increasing agility in the building and running new digital services," O'Neill noted. According to David Mitchell, president of core banking modernization company Nymbus, the cloud "is a business asset that no modern bank — regardless of size — can afford to bypass."

"It's become clear that any financial institution relying on a legacy infrastructure cannot compete against faster and more innovative digital competitors," he tells BizTech. Cloud-based CBSs enable financial institutions to **accelerate their growth in unparalleled ways**, Mitchell says. "Modernizing their existing technology environments enables them to automate operations and workflows, resulting in increased efficiency, security and cost savings," he says. "With the right digital partner, these organizations are set up to rapidly respond to new digital products and services for serving their current and future consumers."

Best Practices for Adopting Cloud-Based Core Banking

A critical element of any transition is finding the right partners with which to **build meaningful relationships**, Mitchell says. "We put our clients and prospects at the heart of everything we do, and we always act with honesty and integrity," he says. "We also stress the importance of communication and being transparent. Not only does it make the entire experience better for both parties, but it also creates the foundation needed to be successful."

Banks need to have the **right people and tools in place to make a migration successful**, especially leaders who can adapt to changing technologies, says Mitchell. "They must also ditch the mindset of 'this is the way it's always been done,'" he adds. "Having training materials in place and a developed implementation plan will ultimately provide them with the resources they need to succeed." Another consideration is whether to go with a public or private provider for a cloud-based CBS. Some cloud-based core providers, like Mambu, work with public cloud providers. Last year, Finastra, the company formed by the merger of the bank-technology vendors D+H and Misys, announced it would run a digital banking and core processing platform in IBM's cloud. Public cloud providers can provide **scale and security** for banks.

Nymbus's platform dedicates a private cloud to each client, "ensuring high levels of security that cannot be accessed by other clients in the same data center," Mitchell says. In doing so, "the hardware, storage and network configuration is ultimately dedicated to each client." That makes compliance "significantly easier, faster and cheaper to achieve," Mitchell says. "Unlike the public cloud, the private cloud allows hardware performance, network performance and storage performance to be specified and customized to each institution's business needs."

Whether banks go with a public or private cloud, they must always ensure that their (and their customers') data is as secure as possible, which is why a close partnership on cybersecurity is essential in any transition.

Cloud-based core banking may not be booming right now, but banks should **take note of the trend** since it can deliver clear benefits and will likely grow more prominent in the years ahead. Cloud computing can help banks to lower the capital investment in IT infrastructure. Cloud computing converts big capital expense into smaller operational expenses. Worldwide not only smaller banks but larger banks too are now perceiving vision to adopt cloud based IT solutions to control the expenses on IT infrastructure.

Cloud technology enables banks to adopt a new model at lower cost for delivering innovative channels, reduced TAT to market new offering, meeting customer expectation and comply regulatory guidelines. Cloud based solutions deliver a higher value proposition of IT solutions and services in rapidly changing technical paradigms. In cloud computing, system admin can remotely assemble, install, configure and deploy virtual resources to run the business solution. Moreover, cloud IT infrastructure can be expanded or reduced at any time based on the expected utilization and requirement without any astonishing financial burden.

Cloud computing will help Banks to meet the following business challenges:

PriceyIT

Infrastructure

Cloud computing converts Capital Cost into Periodical Operational Cost thus regulate cash outflow

Cost of Regulatory Compliance

Bank can afford the required solutions at lower cost in "Software as a Service" model to comply the regulatory requirements

Capital

Inadequacy

Cutting down capital investment on IT infrastructure will reduce the capital inadequacy of the Bank

Market Competition / Business Growth

Bank can save 3Ms (Man, Minutes and Money) by implementing cloud computing and utilize these in new business opportunities

Risk

Mitigations

Banks on cloud computing are better prepared to economic uncertainties, environmental changes and shift of customer expectations

V CONCLUSION

In India, the newly licenses Small Finance Banks and Payment Banks are proactively embracing cloud computing for their core and surround banking solutions. It is not only helping them to reduce the capital expenses to start the business but also aiding flexibility to scale the infrastructure in future based on the growth of the business. Nelito is offering its core banking, financial inclusion, KYC and other surround solution on cloud. Cooperative Banks, UCBs, PACS, Credit Societies and NBFC can use these cloud based solution and reap the benefit of cloud computing. Nelito provides the complete spectrum of services with regards to cloud, our services comprise of consulting, architecture setup, designing, implementation, and monitoring. We empower businesses by accelerating innovation, and providing business agility while optimizing costs. Comprehending the constant need to experiment and innovate. We offer development across Software-as-a-Service (SaaS) for enabling customer to leverage the benefits of Cloud.

