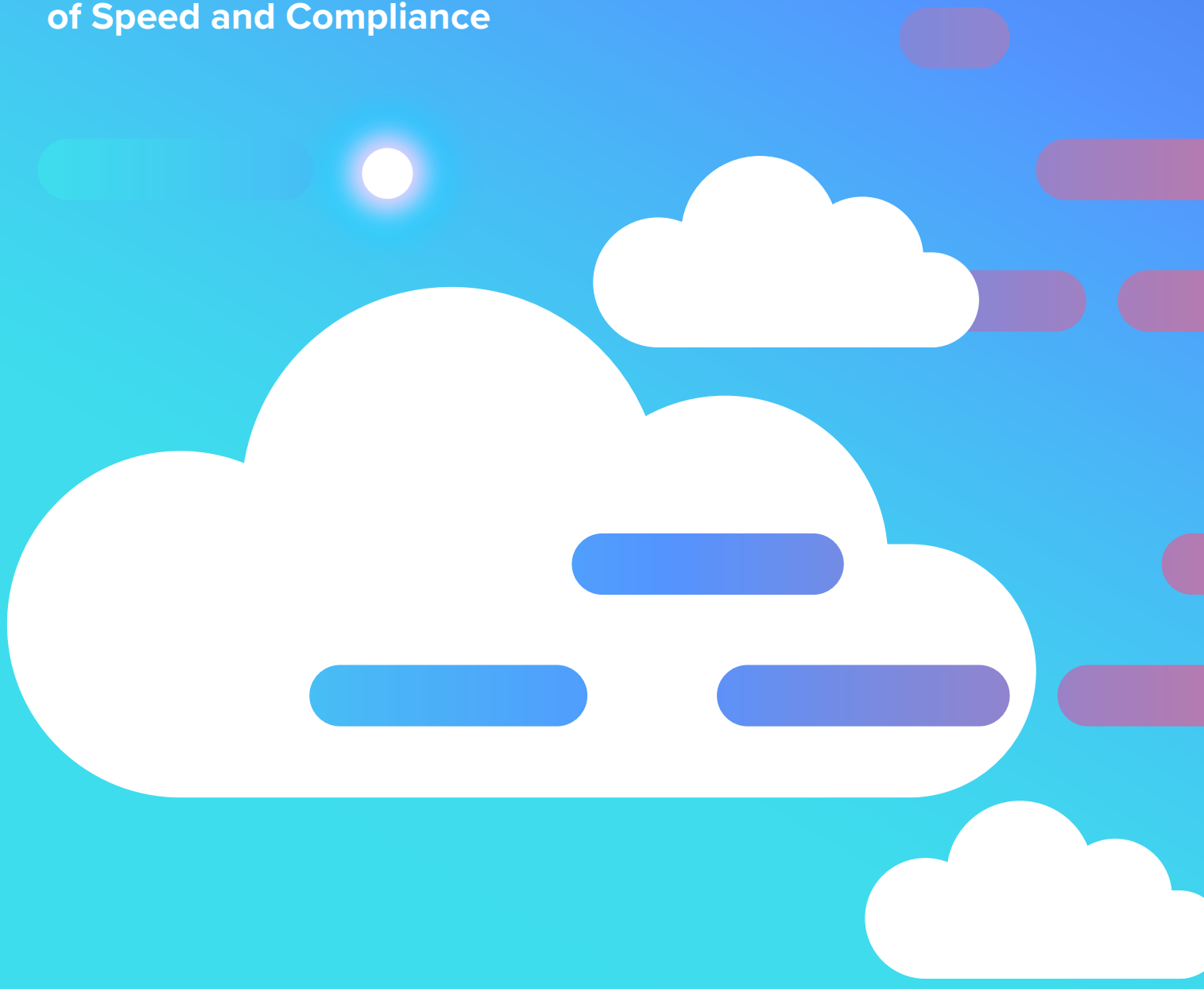
WEBINAR BRIEF

Banking on the Cloud

Innovation at the Intersection of Speed and Compliance



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The times are a-changin'

Leaders in financial services organizations are finding themselves at a crossroads. Their firms and consumers demand digital channels for communication. But this is often hindered by the weight of implementing new technology and compliance infrastructure. Many of these organizations are using yesterday's technology to solve today's problems. And that could be a costly mistake.

For example, today's conversations between a financial advisor and a client aren't happening in a corner office. They are conducted via chat, text message, email, social media, and more. Employees at a brokerage firm are discussing the day's events on Slack and Microsoft Teams, from the comfort of their respective home offices, potentially thousands of miles from each other.

Legacy compliance solutions for capturing, archiving and supervising communications were set up for on-premise data storage, built to monitor company emails – and not much else. Holding on to legacy technology and outdated compliance practices is risky in today's multi-modal, hybrid work environment. Especially when regulators are expecting compliance across channels.

"Banking and capital markets leaders increasingly recognize that cloud is more than a technology; it is a destination for banks and other financial services firms to store data and applications and access advanced software applications via the internet."

– Deloitte
Cloud computing: More than just a CIO conversation

Take these recent examples of enforcement actions:

- SEC Reviews Personal Phones for Business Communications
- Wall Street's Top Cop Says Texts Can Hold a Firm Ending Bomb
- Social and Mobile Apps: The Escalating Cost of Noncompliance

Cloud-based compliance and risk management technology provides the scalability and performance to solve today's and tomorrow's problems. Bottom line, the cloud is a long-term investment in a firm's business. In this brief, we recap a recent discussion with industry experts about the cost benefits of the public cloud, common causes of apprehension to cloud adoption, and best practices for reinforcing compliance and risk management at scale, with the cloud.

Marty Colburn, Presenter
Former Executive Vice President & CTO, NASD/FINRA

Alvin Huang, Presenter
Capital Markets Specialist, Global Financial Services, AWS

Robert Cruz, Host
Vice President, Information Governance, Smarsh

The economics of the cloud

Getting to market with products and services can be much faster with the cloud. Companies can invest as they build products to ensure the right level of adoption across the customer base. Whereas, within a company's own environment, infrastructure and maintenance costs can be detrimental to progress.

"The cloud really enables agility — to create minimally viable products before you put too much time, effort and money into them, and the ability to lose the ones that don't work."

– Marty Colburn

The cloud also provides a beneficial economy of scale in an environment of ever-growing data volumes due to new and varied communications channels. On-premise, legacy technology is no longer suitable with the accelerated demand for digital communication. This is especially important for companies that are either highly litigated or have extra-complex regulatory obligations due to a broader number of financial products and/or offerings in multiple geographic regions.

Often times, data in on-premise systems sits dormant until it's needed. But the need to support that infrastructure is ongoing. It's an incredible waste of resources to maintain the upkeep of technologies when they are only used on occasion.

"Let's say you're processing billions of rows of data. With the cloud, you can spin up that environment when it's necessary, process what you're looking for, and then spin it back down without having to continuously support a data center. When you measure those economics, it's hard to argue against it."

– Alvin Huang

On-premise – fixed costs

- Maintenance
- Storage
- Support

Cloud – operational cost advantages

- Higher productivity
- Faster time to market
- Economy of scale

According to a report from Deloitte, banking and financial services institutions are diving deeper into the economics of the cloud, identifying "above the line" opportunities that include new business frontiers and "below the line" benefits to the organization itself.

Above the line – New business frontiers

1. Synchronize the enterprise
2. Drive business innovation
3. Unleash new talent and new ways of working

Below the line – Optimizing the organization

1. Build resilient operations
2. Enhance IT security
3. Scale computing costs as needed

All signs point to an increased investment in the public cloud, from small businesses to enterprise organizations. In an audience poll from the webinar, 37% of respondents said they are currently in the process of enterprise-wide deployment of public cloud infrastructure.

Some large financial services organizations are walking the walk. In their latest annual report, Wells Fargo indicated their internal push to create a "Digital Infrastructure Strategy" to articulate their approach to moving toward cloud-enabled applications across the board.

"We need to move from an approach where technology aids our business to where technology *drives* our business. This is a tough journey, but without it, we significantly reduce our chances of success."

– Charles W. Scharf, CEO and President,
Wells Fargo & Company, 2021 Annual Report

Common barriers to cloud adoption

Concerns about data security

There is a common perception that stored data is less secure in the cloud than on-premise. The reasons to maintain a traditional data center revolve around cultural norms and comfortable routines. However, public cloud has a level of security that is not available to most private or public companies. Cloud providers are invested in data security because it's their business.

Gartner estimates that public cloud services will experience at least 60% fewer security incidents than those in traditional data centers. Moreover, the public cloud provides functionality and features that go far beyond what an enterprise data center can provide.

"When you put data into the cloud, you own and maintain full control of that content. You decide what region you want to put that data in. You decide what encryption you want to put on that data and AWS provides you with several tools and capabilities to secure, audit, and log that data."

– Alvin Huang

Cultural resistance to change

There's pressure to maintain the status quo when existing technologies have worked for so long. On-premise compliance applications have decades of development baked in, including feature and access controls that were designed to operate in proximity to messaging and directory infrastructures.

This kind of resistance, while understandable in the financial services industry, fails to consider whether existing processes will continue to be sustainable. It's taking more and more energy and time for compliance staff to search through mountains of messages or investigate false positives, rather than focusing on the bigger picture — detecting patterns of risks before they become financial, legal, or brand liabilities. All of which may have been avoided with more efficient, modern technologies.

Operational disruptions and compliance resilience

In this context, resilience is not just the unavailability of compliance applications due to a possible cloud service disruption. It is also the risk that compliance workflows can be impacted by cloud performance issues, which could slow data ingestion, search and retrieval, or the export of data required for time-sensitive compliance tasks.

Public cloud services from providers like AWS are designed to be scalable and reliable. The cloud gives companies a richer set of choices for accessing and monitoring data to meet regulatory and legal requirements. Additionally, high data availability offered by public cloud providers gives assurance that it's always available and accessible.

Increased complexity of region-specific rules and regulations

As online services expand and the number of remote workers increases, firms are operating across geographic regions and jurisdictions. Managing cross-border data with regard to regulatory, privacy, and legal considerations with on-premise tools was already complicated. The idea of distributed data storage locations may be considered far too complex or risky.

Data security and management is significantly better in a cloud ecosystem. The monitoring and surveillance offered by cloud providers, along with zero-trust network access, can help to allay regulatory and privacy concerns, regardless of location.

Best practices for moving to the cloud

Start small

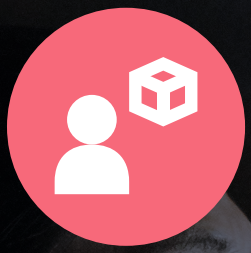
An incremental approach can help firms acclimate to the growing dependence on digital communications tools. You can "dip a toe" into the process by testing less sensitive or publicly available data. An iterative migration can help firms move data selectively and in smaller components that are easier to manage and with little risk for disruption.

"Start with SEC filings, 10-Ks, 10-Qs, for example. Run the workload, understand the governance, controls, audit, and logging capabilities that you have in the cloud first. As you get more comfortable, you can then start moving more sensitive data into the cloud."

– Alvin Huang

Involve all relevant stakeholders

It's important to address the concerns of all the groups that will be affected by a significant change like moving to the cloud, including compliance, IT and legal departments.



"They are trusted advisors that should be part of that journey. At the end of the day, compliance is there to protect the company, so they must be involved early."

– Alvin Huang

Know how you're securing your data

Firms must continue to invest in technology and infrastructure, and understand what data they have and how it needs to be protected.

"For example, the Colonial Pipeline hack – they had legacy systems that had not been patched. They had security vulnerabilities you could drive a truck into – and they happen to be running their own data centers. Atrophy and security vulnerabilities arise when you don't continually invest in data infrastructure."

– Marty Colburn

Invest in vendors with a strategic roadmap

Though supporting cloud technology can be costly upfront, it is an investment in the future. Firms should invest in modern compliance and risk solutions that will grow and evolve with the company.

"When you buy these technologies, you want to look at what's happening from a strategy point of view. My recommendation when you start looking at your investments is to look at the prior 18-month roadmap of the vendor or partner you're evaluating and also look at their plan for the *next* 18 months. That's going to help you determine if they are investing in their product line or just monetizing something that they built several years ago."

– Marty Colburn

Take the lead from regulators

In the U.S., FINRA has been ahead of the curve on cloud adoption, and the organization has offered best practice guidance for firms under their purview.

"When FINRA made the decision to move to the cloud, they realized that it was no less secure than their on-premise environment. And then a few years later, they did follow-up analysis about how the cloud offered them additional capabilities like encrypting data in transit and at rest and applying micro-segmentation for communication with firms."

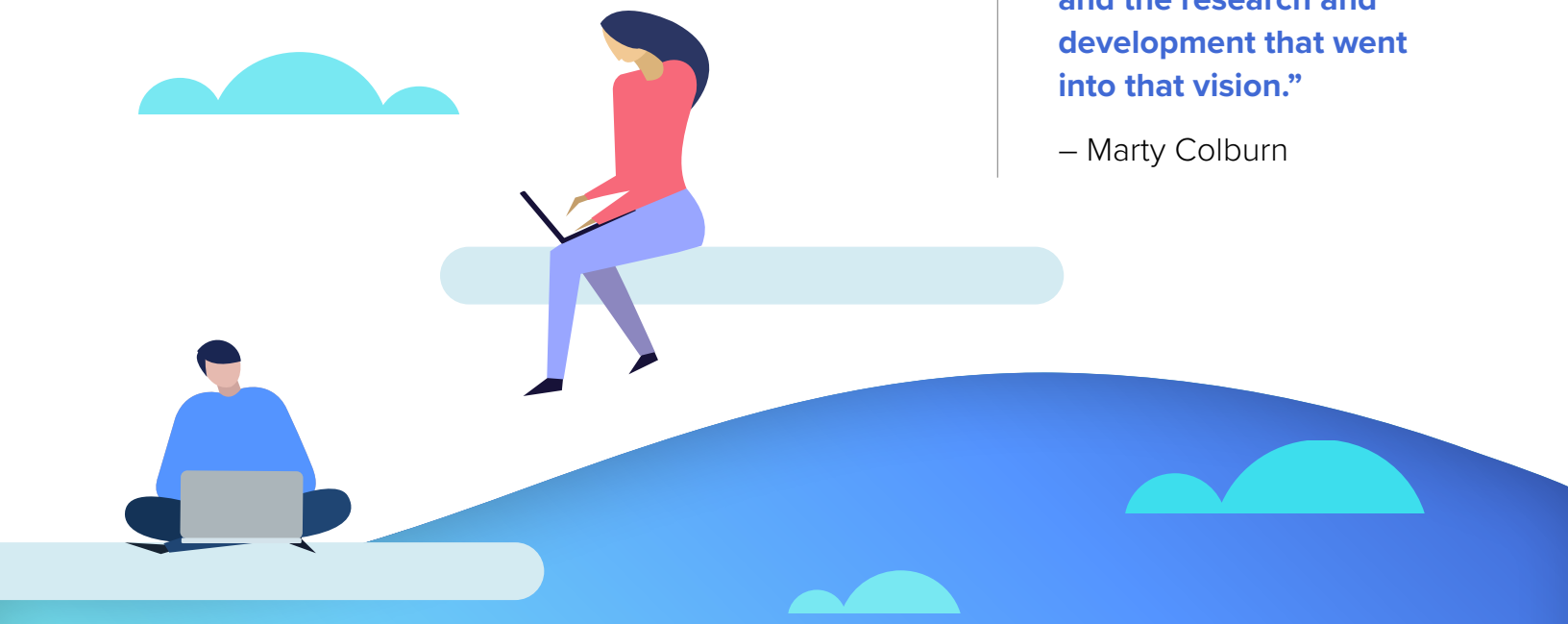
– Alvin Huang

How Smarsh can help

The cloud-based digital transformation has begun. And while the importance of cost reduction, flexibility and security can't be overstated, the public cloud can turn a firm's data infrastructure into a competitive advantage. It transforms what was previously considered an overhead cost center into a powerful oversight, marketing and analytical tool.

"Companies like Smarsh are ahead of the curve. Firms that have invested in Smarsh didn't buy a point solution, they bought a strategic vision and the research and development that went into that vision."

– Marty Colburn



Smarsh on AWS positions your business for the future. Using modern web-scale technologies built on AWS, Smarsh can ingest, search, protect and export your content orders of magnitude faster than legacy archives. All content is retained in its full native format, preserving context and fidelity, which will help to reduce legal review costs, require fewer technical resources, and increase compliance productivity.

Smarsh tools are optimized to scale on AWS. So as your data volume grows, platform performance won't be affected. It can be hosted in any availability zone in the world and is fully enabled to feed downstream applications.

Smarsh is now available in AWS Marketplace.

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Smarsh enables companies to transform oversight into foresight by surfacing business-critical signals in more than 100 digital communications channels. Regulated organizations of all sizes rely upon the Smarsh portfolio of cloud-native digital communications capture, retention and oversight solutions to help them identify regulatory and reputational risks within their communications data before those risks become fines or headlines.

Smarsh serves a global client base spanning the top banks in North America, Europe and Asia, along with leading brokerage firms, insurers, and registered investment advisors and U.S. state and local government agencies. To discover more about the future of communications capture, archiving and oversight, visit www.smarsh.com.

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