



The Deloitte On Cloud Podcast

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Title: For many banks, cloud is a powerful driver of innovation and business value

Description:

Cloud adoption continues to grow among banking institutions, but their reasons for implementing cloud are evolving. In this episode, David Linthicum talks with AWS's Charith Mendis about how many banks now view cloud—and cloud-enabled technologies such as machine learning—as drivers of innovation, enhanced customer experiences, and increased business value. They are also making investments in initiatives that return the most value. Read more from AWS here: <https://deloi.tt/3Nf6OYg>

Duration: 00:23:05

David Linthicum:

Welcome back to the On Cloud podcast. Today on the show I am joined by Charith Mendis. Charith leads global banking industry activities for Amazon Web Services, or AWS. In his role, he works with leading banking and leading organizations globally to transform their existing businesses to bring innovative solutions to the market by leveraging cloud capabilities. How 're you doing?

Charith Mendis:

Good. Happy to be on, David. Thanks for having me.

David Linthicum:

So, what is a day like in your job? what are you typically doing?

Charith Mendis:

When I think about my role, a lot of what I do is about helping banks understand how they can get value out of the cloud really from a business standpoint. So, when I break that down, it's really about working with banking executives to talk about how does the cloud actually help them, not just from a technology point of view, but really help them transform their business, whether that's lending, whether that's operational excellence, whether that's creating a new business model. So, most of my days I talk to customers, some one-on-one or one-to-many having discussions about what they could do. I spend a lot of time actually at conferences talking with customers and presenting as well, and then really working with our partners to help work with them to build solutions that are really going to help transform the banking industry.

David Linthicum:

I like having a dynamic work environment where you're doing different things on different days. So, summarize how the bank has evolved in utilization of cloud computing, say in the last ten years, and what are you seeing as being the core directions and trends right now?

Charith Mendis:

Yeah, it's just so interesting. You wind back ten years and we had cloud computing, and it was this technology project. People were looking at it like, "Hey, I've got my Solaris box in my data center and I want to move it to the cloud because I think it's going to be cheaper for me." Now, it's not to say that those kinds of activities don't happen, but I think we've started to see an evolution. We went from that to, I think much more about how do we use cloud for burst computing. So, whether that was a risk grid in financial services or a model one, we've seen that evolution to that. Now, I think where we are is actually really interesting. I think we've gone beyond, "How does this just give me scale and flexibility?" to "How does it actually help me innovate."

So, where I'm seeing customers really focus on is things like, "How do I actually use cloud to support innovation and drive transformation," whether that's doing CXT and doing sentiment analysis using machine learning or digitizing lending. We've got other customers that are using the cloud to actually just develop new business models. There's so many banks you would have seen publicly at re:Invent that have talked about how they're using the cloud to actually enter new markets or actually go down market and serve some customers that they haven't been able to do. I think the third one that's really interesting, the ability to fail fast, which seems like an oxymoron in financial services.

But I think what really what I see our customers looking at is, "How do I actually experiment without having to know what the outcome is?" Because, historically, we haven't been able to experiment because there's been so much capital that you had to lock up to try something new. Now, this ability to experiment and fail in a more controlled and low-cost activity is key. Now, all of that's not to say that the first two things I talked about in terms of optimizing server technology and looking at good workloads are not there anymore. I think we see a combination of that, but we're seeing that innovation cycle kick in as well.

David Linthicum:

Yeah, innovation is going to be everything moving forward, especially. I think the playing fields are going to level out because everybody's going to have access to this very game-changing technology. And, so, your ability to implement fast, your ability to get innovation in place, your ability to put new customer instruments in place, investment instruments in place, all these systems that are really can change the game in terms of how we do banking, that's possible now, and I think that bigger guys have to do it because the smaller guys have the ability to punch way above their weight by leveraging cloud computing and other technologies. Do you find that to be true?

Charith Mendis:

Yeah, and I think it's a little bit of both because I think what it's meant is even if you are a traditional bank and you've had infrastructure that's been in place for the last 60 years, that's no longer a limiter because you can experiment even outside of that infrastructure. So, I think that capability is less so because a smaller bank or newer bank is challenging you that stop the bank from doing that, but it was the limitations in technology. Now, I think it's actually evened the playing field to an even greater extent where each of those activities, as we continue to evolve in banking, and as the rapid change and very customer-focused change happens, we're seeing more and more innovation and, whether you're a traditional bank or a newer bank, both actually driving innovation and competing against each other in almost what's a really interesting technology playing field that allows each to innovate so rapidly, and that's really the core part of it. Historically you would probably some of the neos actually drove some of the traditional to innovate, but now I think it's actually changed.

David Linthicum:

So, what are examples or case studies you're seeing out there without naming names, people who are leveraging this technology efficiently, and specifically how are they leveraging your stack efficiently?

Charith Mendis:

I think there's some really cool examples. Without going into names, there's a large bank in the UK and the near region that's really looking at customer experience differently. Now, we go back, and I used to implement Siebel when I started my career, but we see customers that are looking at how to develop a 360-degree view of the customer. And when we started off with that, it was historically transaction and product and customer profile. Now, this bank has

pulled in additional data, it's pulling in sentiment, intent, and direction data and using all of that information to really drive a hyper-personalized recommendation. So, you're not getting that push notification at 3:00 whilst you're at work; you're getting it at 6:00 whilst you're actually using your phone.

You're getting a recommendation about you and your transactions and exactly what you're doing, as opposed to an above-the-line marketing recommendation about a home loan or a car loan as well. So, being able to extract data from all of those different things that you actually interact with as a customer of a bank, whether that's the mobile website, whether that's the mobile app, whether that's the call center, and all the different transactions ultimately get to a truly personalized offer, which is really cool.

Now, take that to the other side, and when we think about small business, we're seeing a really interesting evolution of how banks—some banks are looking at using ecosystems, looking at capabilities to drive beyond banking. We've got a great number of customers in southeast Asia, even the US and Europe and Latin America, that are starting to create what they've called banking ecosystems where, with the consent of the customer, they're actually embedding their banking capabilities into ERP systems, or even into line of business applications like a mechanics app or a hairdressing app.

And by doing so, they're able to contextualize the banking for the customer, so when they need to make payroll, they're not getting out of the application to manage their business into a bank portal. They're just triggering it from their ERP, or triggering from their line of business app. Now, in exchange for that, we're seeing the real-time access of data so that the bank can better understand the customer's need and be able to provide financing at that point of need by using machine learning at that point. So, we see that really cool use cases coming out from everything from what we see in personal banking to do recommendations and going beyond banking.

David Linthicum:

What are some of the other use cases you're seeing that maybe the listeners aren't aware of?

Charith Mendis:

There's many others out there. Maybe if I keep on going with that machine learning example there, fraud is a really interesting one. In the world of real-time payments where money can move instantaneously, being able to identify an account takeover is a major concern for banking customers. Now, what we've seen some customers develop is the ability to look at and baseline a biometrics core for yourself, then make sure that when you see a deviation of that, determine when to apply friction. Now, I think we've all been there. You get that OTP password check when you log in and you get that text message around the six-digit code.

The evolution from that is measuring how you use your device, how hard are you pressing on the keys, do you use your left hand, your right hand, et cetera. And we've got a customer that's built this ability to do that biometric scanning, where you get that passive use of that device, and by using that and then mapping it against how you use the device at any given point in time. So, for example, I use my right hand on my phone quite a lot. If I've just logged in, I start using my left hand and then my pressure patterns are different, it'll register a friction score. Now, it's up to the bank to then make a decision in terms of is that friction fraud or is that friction just because I've got a cup of coffee in my hand.

Now, what the bank is then using is contextualizing that friction point into your interaction. So, if the first thing I do when I'm using my left hand with a different friction pattern, a whole different pressure pattern I have used to go at a payee, it's probably a fraudulent transaction, and that's where I'm going to put the challenge question. But if it's not, maybe I'm not going to put the challenge question because I can see it's exactly the same baseline usage, so there's a really interesting use case when you think about fraud. Now, you can imagine that in a number of different scenarios, whether that's transaction fraud—you could see that on the corporate side—or just even on the individual side.

There's some others that are really cool in this area, so take that and accelerate that even further and let's go into lending, and let's talk about whether that's mortgages, personal loans, or even some of the corporate lending. We see a lot of customers in the banking sector look at, "How do I optimize my lending so that mortgage officers and lending officers can spend their time focusing on the customer and not taking data off a document and typing it into another screen?" So, we see the use of OCR capabilities being used to simplify this. In the mortgage industry, some mortgage documents are anywhere from 100 to 500 pages, and you could imagine manually validating and checking all of that information. Now, we've got customers and partners that have used that OCR capability that we have to automate that part of the process and take out that manual work so that those mortgage officers can really focus on the customer.

Now, that continues to extend in terms of how do you then use machine learning to auto-adjudicate loans. I don't think we'll ever get to the stage where you get an auto-adjudication for all mortgages in my lifetime. I wish we would get there, but we definitely see being able to take a lot of the manual work out of the process, again allowing those credit officers to focus on serving the customer as opposed to doing the manual work.

And then maybe one last one in terms of where we see the adoption is core banking. And this is really an interesting one because when we think about cloud, we don't necessarily always think about the core banking applications in terms of the debits and credits and the products that are in the bank. But all those other things that I talked about are really about, "How do I remove friction out the customer's interaction with the bank? How do I contextualize it so that the customer gets financing in the context of the activity they're doing—making payroll, getting a personalized offer based on transactions?"

Now, the core banking component of this becomes crucially important in that lens as well because what we're finding with a lot of our customers is they can do all of those things at the surface and the front office and the middle office, but unless they optimize their core banking capabilities, they don't have the speed that's required in terms of real-time payments, or real-time core, or being able to develop new products that their customers need as well. And, so, we see a large adoption in terms of, "How do I leverage native core banking capabilities on the cloud that's going to help me accelerate my time to market." Now, you've seen very large banks in the US undertake these programs. Very large banks in Asia and Latin America and even Europe have undertaken these programs and have seen great value in terms of how they're able to drive better customer experience and remove that friction point.

David Linthicum:

So, I'm seeing some skepticism in terms of cloud value that's occurring now. How are banks really considering the consumption of the cloud? Is it really around the innovation drivers that they're valuing, or the ability to get to operational cost savings? Is it a bit of both? Do they see the vision as to what this technology can do, can bring to their core processes, to make them better in terms of interacting with customers, providing a better experience? You mentioned lending and the ability to spot fraud and all these sorts of values that come through it. I guess the question is do banks see this as really a differentiating value multiplier that they should be leveraging, or is it still viewed as IT infrastructure, the cloud?

Charith Mendis:

I think the mindset continues to shift. I think we're in that evolution where previously, I would say pre-COVID, it was seen as just a technology and infrastructure value. What we've seen going through COVID and into now, I have more and more meetings with business executives talking about business change as opposed to technology change, which is really interesting. We're seeing that evolution in terms of business executives embracing how cloud can drive value and working with their technology organizations to collectively do that.

Now, when we go through this process of this actual evolution, there's always going to be this need to focus on the immutable need and not the technology. So, what I mean by that is what I find is that the banking executives I work with really do focus on what is that immutable need that they're trying to address in their organization for their customers, rather than doing a cloud migration or a cloud project. Now, that immutable need could be, "I need to exit my data center because the cost of the data center's too high, and therefore it requires me to look at this as a technology migration project in this initial sense," or they may actually look at the immutable need of their customers or their organization as, "I need the ability to innovate faster or deliver a better customer experience faster." Or maybe it's, "I need to be able to enter a new market," like we've seen many banks do using cloud capabilities to enter the UK market.

What I find is the business driver, as long as it's linked to a true business driver or a business need, an immutable need that the bank has at this point in time, we find that that value then drives the right behavior and then the right approach to leveraging the cloud to deliver value. I think with anything, if you take a build-it-and-they-will-come approach, that's a little bit harder to actually derive value, and that's where I definitely think by not having the right executive support, not having the right team, and not having the right focus, you ultimately could actually lose value.

David Linthicum:

You find the business value calculators and metrics, they're using now, are evolving or they're pretty much the same as they were just a few years ago?

Charith Mendis:

I think they continue to evolve. In terms of really tying it down to the KPIs for the business and then working backwards from that and then being able to articulate exactly how cloud will support that, I think that continues to evolve. You also see the aspects of FinOps and how customers are leveraging FinOps to keep a view on the control of cloud and how the spend patterns are occurring. The traditional models in terms of TCO, I don't think those have evolved too much, but they continue to grow and flex as organizations get more mature in their experience with the cloud.

David Linthicum:

Yeah, I think FinOps is taking a lot of the worry and threat away from the value in terms of operational values and even defining how it comes back to business values. We can not only look at what digital transformations cost us in terms of doing the digital transformation, but operating the clouds and operating some of the on-premise systems as well so there's no more of this mystery in terms of what we're spending on developing, building, and operating these systems where just a few years ago I don't think a lot of companies had an exact idea of what those were and how those things translated back into provable values that went back into the business.

And one of the things I'm seeing in 2023 and moving into 2024, people are focusing on what value means to them, not only just operational cost savings, because if you focus on that, you're only getting a very small part of the story, but as you just described, how you map that back into discernable and quantifiable values that we can explain to a board of directors to get the investment to make these moves to do the digital transformation and invest in the cloud. What are your thoughts on that?

Charith Mendis:

I one-hundred percent agree. I think that's definitely what we see in terms of being able to demonstrate value, but also able to demonstrate cost as well. I think one of the really interesting things is, because now all of the infrastructure is callable by an API and all of the services that you build are callable by an API, you're able to then tag those assets in terms of the use case that you're enabling, so you can cost out the true cost of enabling that use case instead of just using a cost-allocation methodology as well from a CFO angle. So, that gives you a much better ability to look at the cost of delivering the service versus the tangible benefits that you're getting from that as well. So, that it's able to give you that profitability viewpoint at a much more granular capability. I think that along with, as you say, really being able to tie it back to that immutable need and then, therefore, those metrics that drive that immutable need, is definitely where we see this moving toward.

David Linthicum:

Is consumption changing in terms of aspects of public cloud providers that they're consuming? So, in other words, is it moving from simple infrastructure, local services, storage, and compute, and even some of the core databases that are foundational to some of the business into the higher-level services, the machine learning systems, serverless computing, the ability to support containerization and the ability to have container orchestration. All these things, really the more hype-driven stuff. Where seems to be the focus on the consumption, and is it switching or is it remaining about the same?

Charith Mendis:

I think it's definitely switching. And maybe not from a totality point of view because I think there's still a lot of EC2 or server-based things that we're seeing. But I think as we continue to see the maturity in that experimentation and those new projects actually being triggered, we do see a lot of usage in terms of some of the prebuilt AI/ML capabilities. Our Amazon Connect call center capabilities as an example, which allows customers to deploy a service call center

capability. Things like that we're seeing which have embedded AI/ML capabilities really being used by organizations as a differentiator so that it gets them speed to market.

Now, I think why we see that is really about where does an organization want to spend its dollars in terms of developing solutions. Is it those things like OCR capabilities that you could buy as a service from AWS that allows you to extract information from documents or being able to transcribe a telephone call? It's probably not where you want to spend your data scientists' expertise. Rather, you're better off investing back on the things that are competitive advantage that's going to drive a better customer experience, a better customer outcome, or greater profitability for the bank.

So, that's that evolution that we see that it's really picking those services, whether that's partner solutions that we have running on AWS, or whether that's the AI/ML services or that higher level services that you mentioned, David, to really pick those and say how do I build that into my solution where I'm going to invest the custom build activities or running on EC2 or some of the service activities really to things that are going to differentiate me as a bank and that's where I'm going to put my engineering and data science capabilities into, and then I'm going to leverage those high-value services and embed those into the process that are the things that are not competitive advantage for me as a bank to develop myself.

David Linthicum:

So, Where can the listeners keep following you?

Charith Mendis:

Number one you can find a lot more information about what we do at AWS.com, and that'll take you to our financial services page, and you can find a lot of information there in terms of what we do with banking. Obviously connect with me on LinkedIn. And then the last thing I would say is we recently deployed this e-book called, "Banking on the Cloud," where we outline some of the really interesting use cases that we see across seven key trends in banking across the globe, and we share some of the very interesting customer stories in terms of what we're seeing customers develop.

David Linthicum:

I'm definitely going to read that as someone who has lots of blogs and lots of podcasts. Got to keep coming up with new content and new ideas, and so I get those from documents such as that. This is an important conversation if you look at really the evolution of cloud computing when I first got into it many, many years ago, I'm OG cloud guy. The first adopters into cloud computing were the banks, and we saw that, even still see that today. They're very aggressive in understanding the value of the technology, generally speaking, as a vertical. And, so, I look to that vertical as someone who is going to depict the way in which we're innovating in the cloud. Some of the other verticals are starting to catch up, but the banking industry is probably most interesting to me just because of their aggressive nature and the unique use cases they have and their ability to find value into digital transformation and cloud computing.

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