

Deloitte Banking Alert

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Banks Push for US Regulators to Oversee Cloud Providers

Senior risk managers at **major global banks** are increasingly vocal about their concerns regarding the risks posed by **cloud service providers** such as Amazon, Google, and Microsoft. These risk managers argue that these large cloud providers now represent **a systemic risk to the financial sector**. This concern stems from the fact that an outage or attack on these cloud services could have **far-reaching consequences for the stability and operations of financial institutions**. As such, they are calling **for more direct oversight and regulation by US Bank Regulators**.

Risks & Challenges:

- **Systemic Risk:** The primary driver behind the demand for regulatory oversight is the recognition that cloud providers have become integral to the financial industry's infrastructure. The reliability and security of these cloud services directly impact the daily operations of banks, trading platforms, and other financial institutions. If a major cloud provider experiences a significant disruption, it could disrupt critical financial services, resulting in severe economic consequences.
- **Challenges and Imbalance:** Bank risk managers face significant challenges in managing cloud risks. These challenges include limited access to comprehensive information from cloud providers, concerns about subcontractors, supply chain risks, cybersecurity measures, and difficulties in negotiating audit rights and termination policies. The imbalance of bargaining power between banks and large cloud providers exacerbates these issues.

EU, UK and US approach:

- **EU and UK Precedent:** The calls for regulatory oversight in the United States are further fueled by developments in the UK and EU. In these regions, authorities have already started moving towards direct supervision of cloud providers. The Financial Services and Markets Bill in the UK and the Digital Operational Resilience Act (DORA) in the EU grant regulatory agencies the power to oversee critical third parties, with major cloud providers being among the prime candidates for such oversight.
- **US Regulatory Approach:** In contrast, US authorities have maintained their stance of placing the onus on banks to manage cloud risks. The US Treasury Department's report on cloud adoption identified emerging risks but did not call for increased regulation. The Federal Reserve, the Federal

Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) reiterated that banks are responsible for monitoring their third-party vendors, including cloud providers.

Cloud Provider Perspective:

- **Industry Support:** Notably, the three largest cloud service providers, Amazon, Google, and Microsoft, have expressed their support for regulatory efforts in the UK and EU. They argue that targeted regulations can enhance industry practices and ensure the resilience of cloud services. Their willingness to engage constructively with regulators indicates a recognition of the need for oversight.

Conclusions

In conclusion, **the demand for regulatory oversight of cloud providers** by US Bank Regulators reflects the evolving landscape of the **Financial Industry**, where **cloud services** have become central to operations. While the US has not yet followed the UK and EU in directly supervising cloud providers, **the systemic importance of these services** and the potential consequences of disruptions **are driving a growing consensus** that **regulatory scrutiny is necessary to ensure the stability and resilience of the financial sector.**

For further questions regarding the aspects mentioned in this alert, including on how to deal with cloud outsourcing regulatory requirements please don't hesitate to contact us.



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