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# Reaping the benefits of going digital without compromising on stability

Cloud computing is a key technology in the digitalisation of the financial industry, promising a boost in computing capacities and software capabilities. As banking supervisors, we want to help smooth the digitalisation process so that the financial sector can reap the full benefits of new technologies. We're open-minded about cloud computing and other technologies. At the same time, driven by our mandate for ensuring financial stability, we will not lose sight of the risks associated with digital transformation.

### Benefits of cloud technology

Cloud services open up a wealth of benefits and innovative potential, not least because they enable banks to tap into huge computing capacities and state-of-the-art software capabilities.

Cloud usage can also boost the take-up of fresh technologies like big data analytics and artificial intelligence, especially among small and medium-sized banks. Moreover, cloud service providers can better equip banks to fend off certain types of cybercrime.

### Challenges

Needless to say, where there is light, there is also shadow. Cloud technologies introduce risks that require proper management – all the more so when they are deployed in risk-relevant areas such as credit checks, capital planning and money laundering prevention.

At the individual-bank level, IT and cyber risks are typical challenges, of course. But when clouds come into play, there is also the matter of outsourcing risk because cloud services are often provided by third parties. One risk is the weak negotiating position and limited control that banks might have vis-à-vis large, internationally active cloud providers. Then there is the risk of vendor lock-in, which might materialise if a bank cannot easily switch between providers due to technical barriers, prohibitively high switching costs or contractual issues.

There's a golden rule that (prospective) outsourcers to cloud providers need to follow: you can't outsource responsibility. A bank might transfer some of its IT processes to an experienced IT service provider in an outsourcing arrangement, but it can't offload the responsibility. That's why every bank has a duty to monitor and control the risks arising from the outsourcing relationship.

### Way forward

Without losing sight of the risks, I regard supervisors as enablers of digitalisation in the banking sector. We will naturally remain within the scope of our supervisory

mandate, which provides for technology and market neutrality.

Clear and regular communication of our expectations is crucial. Last year, European supervisors communicated their expectations regarding risk management at banks, in the shape of the revised EBA Guidelines on outsourcing arrangements. These guidelines are an essential step to ensure planning security, and we are currently working on their national implementation.

Furthermore, we encourage banks to make better use of instruments already embedded in the supervisory framework. Joint reviews (pooled audits) of cloud providers are one way in which banks' internal audit units can gain high-quality insights into the interface between bank and third-party services. This can help them assess a cloud service provider's risk management and the internal controls it has put in place more effectively and efficiently.

Of course, supervisors may have to access and check third-party cloud service providers, too. EBA guidelines already stress the importance of having suitable clauses in outsourcing contracts, and we will examine their quality and effectiveness closely.

Further steps are being taken to forge an effective European oversight framework for monitoring the activities of critical third-party providers. In March, the European Commission launched a public consultation on a digital operational resilience framework for financial services, and it will build on this consultation when conducting its ongoing initiative to develop a cross-sectoral financial services act on operational and cyber resilience. We also welcome the European Commission's initiative to set up an EU Cloud Rulebook including standard contractual clauses for cloud use in the financial sector.

Looking ahead, supervisors will continue to strive for close European and global coordination in this field. We are guided by the goal of enabling banks to reap the full benefits of going digital without compromising on financial stability. ●