

CLOUD

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How the financial industry can successfully manage the journey to cloud

Olivier Vareilhes is Managing Director of Kyndryl Switzerland, the largest provider of IT infrastructure services in the world.

After 3 years in software development, Olivier Vareilhes joined IBM in 1998 and held several sales positions in French-speaking Switzerland and in Zurich until 2007.

He was then promoted to Sales Director and then Regional Director for French-speaking Switzerland. His activity focused on collaboration with the financial industry, one of IBM's business areas.

In 2019 he led national sales and became a member of the Swiss management. In 2022, he joined Kyndryl where he now leads the Swiss business. His priorities are enterprise cloud adoption and cyber security.



Cloud adoption in Swiss financial sector – How can Swiss banks successfully leverage cloud technologies and fulfill regulatory standards?

The benefits of the cloud push more and more companies to invest in this technology. Banks, usually pioneers in innovation, adopt cloud technology more cautiously. It is well known that the Swiss banking and financial sector is an exception in the world due to its specificities.

The move to cloud and all that it entails is therefore not a trivial thing in Switzerland and especially for a bank. Many questions arise about data and information control. The legal provisions of the United States, from which the main providers come, such as the Cloud Act, further complicate the adoption of the cloud by banks for legitimate reasons.

Based on the experience of multiple client projects within the banking sector around the cloud, Kyndryl Switzerland identified several recurring areas of concern. Each of these concerns requires in-depth analysis before taking the cloud journey and then during the due diligence process. A strong partner can mitigate the challenges that any banking organizations faces. Kyndryl Switzerland has a comprehensive set of Technology Services around hybrid cloud solutions, business resiliency and network services for your IT transformations. www.kyndryl.com/us/en/services/cloud

What are the regulatory standards that banks have to adhere to?

According to its own definition, "FINMA is Switzerland's independent financial-markets regulator. Its mandate is to supervise banks, insurance companies, financial institutions, collective investment schemes, and their asset managers and fund management companies. It also regulates insurance intermediaries. It is charged with protecting creditors, investors and policyholders. FINMA is responsible for ensuring that Switzerland's financial markets function effectively."

Regarding Information Technology, FINMA mainly intervenes, regulates, and issues recommendations in the following areas: Customer Data Confidentiality, Outsourcing and Business Continuity Management.

In addition to these three main areas, FINMA also regulates the following topics:

- IT strategy, organisation and governance
- IT risks and controls / cyber risks
- Logical and physical security / information protection
- IT infrastructure and IT service delivery
- IT outsourcing and vendor management
- End-user computing and data quality

Kyndryl Switzerland always take these regulations into account during projects with our customers and place the regulatory



subject on top of everything. This means that we work hand in hand with our customers to select the cloud provider and solutions that best meet their needs without breaching compliance requirements in a complete agnostic way. In the case where our customer has already made a choice of supplier (e.g. if the latter is imposed by the group), we help our customer to verify that the contractual, technical and organizational characteristics of the cloud service provision are compliant.

How do cloud service providers adapt to regulatory requirements?

Aware of the regulatory requirements of their customers, the cloud service providers, mainly from the United States, show their credentials by demonstrating with the help of various legal opinions and detailed analysis that their services are well and truly compliant with the Swiss regulatory requirements.

Some cloud providers claim to be more advanced in this regard thanks to their compliance guidelines which include requirements issued by FINMA through its circulars on outsourcing and client data protection as well as other legal texts such as the Swiss Federal Act on Data Protection (DPA).

Through this exercise, they want to demonstrate that their offering is compliant with all the regulatory requirements in place.

How can Kyndryl Switzerland help you to comply?

As part of its cloud migration portfolio, Kyndryl Switzerland, has developed a neutral and agnostic framework mapped on FINMA requirements as well as on the recommendations of the Swiss Bankers Association. When supporting our banking and insurance clients in their Go to Cloud approach, we apply this framework to help them reduce the risk and ensure that data protection is guaranteed. This involves analysing the cloud services provision, reviewing contracts, and implementing appropriate controls.

Data privacy and security

Usually, the issue of customer data protection is a cornerstone in any IT project within a bank. Where other industries place

innovation, performance, or cost optimization at the top of their priorities, the banking sector makes the protection of customer data a sine qua non condition and any action or decision is made through the client data protection's prism.

Risks generated by the Cloud are mainly related to the loss of control over data following its migration to the IT infrastructure of Cloud providers.

Therefore, many questions arise regarding access to customer data by unauthorized third parties, hosting, backup, replication, and protection.

- Is access to data adequately managed?
- Where is the data stored?
- Is it possible to access the data from abroad?
- Who can access the data?

Governance

The risk of selecting only one cloud provider, due to interoperability needs to be considered. For instance, if we consider the Microsoft offerings, we note that there are several gateways to their ecosystem. Whether it is Microsoft 365, Azure or the rest of Microsoft tools, the interoperability of solutions makes it easy to navigate between the different tools while remaining in this ecosystem. Therefore, a question arises, is there a way out and is it easy to take it once a single provider is chosen?

FINMA clearly stated on the vendor lock-in issue: *“the eventuality of a change of service provider and the possible consequences of such a change must be considered when deciding to outsource and selecting the service provider. The service provider must offer a guarantee of permanent service provision. Provision must be made for insourcing the outsourced function in an orderly manner.”* Cf. FINMA Circ. 2018/03 on Outsourcing – Cm. 18

To mitigate this risk, Kyndryl Switzerland Cloud Strategy and Architecture services provide comprehensive guidance that helps to address cloud adoption and optimization inhibitors. Once your business needs have been established, our professional services team at Kyndryl Switzerland delivers a customized plan that integrates infrastructure and platform strategy, increased security and cyber resilience, and management models.



Service provider selection

During the due diligence process, the bank must thoroughly ensure that the financial and human resources capabilities of the cloud provider meet contractual obligations and the service provision.

It is concretely difficult to question the financial stability of suppliers, often worldwide large companies, whose revenues are higher than the GDP of certain states. However, the exercise of due diligence must not ignore this part. Indeed, one of the angles of analysis consists in verifying the ability of these companies to provide services with human resources that are not in default with respect to Swiss data protection regulations:

- Does the service provider have sufficient resources in Switzerland to provide the service from here without relying on employees based abroad?
- Are the supplier's employees subject to banking secrecy?
- Does the supplier have a vetting process for its employees involved in the cloud service provision?

Customers can contact us to discover Kyndryl Switzerland Cloud Services Decision Model (CSDM) which provides a structured, consistent cloud decision framework that can guide you toward the successful identification and implementation of a cloud solution. You can get a 30-minute, free of charge strategy session with an expert from Kyndryl Switzerland.

Possibility to withdraw without threatening the business

One of the other points of vigilance concerns the possibility of withdrawing without endangering the bank's core business. In

other words, is it possible to go back easily and quickly once engaged with a cloud outsourcing provider? Between the desire of limiting the outsourcings and therefore avoiding multi-cloud and mitigating the risk of single cloud provider, the best choice is not obvious.

Control of sub-contractors

When analysing the list of cloud service providers, several questions arise. What data do they have access to? For what reasons? From which countries and via which process?

The bank being ultimately responsible for outsourcing, it must therefore ensure the compliance of the activity throughout the chain of delegation. This will require to obtain the list of sub-contractors and analyse them.

Although it does not have a real right of veto, the bank must ensure that it is kept reasonably informed in the event of a new subcontractor and that it has the possibility of terminating the service in a timely manner.

Audit right

As the bank remains ultimately responsible for the outsourced service. It must ensure that the outsourced service can, like all other services, be auditable by FINMA. This is even more valid when there is a cascading delegation with sub-contractors.

The bank must therefore ensure that this point is enforced contractually with its service provider and ensure that the latter expect the same from its sub-delegates by transferring and duplicating this right from the bank and FINMA on the entire sub-delegation chain covering the outsourced service.

How to keep control over your IT service provider?



Obtain audit reports

- ISAE 3402 & ISAE 3000
- ISO reports
- PenTest reports
- Annual Fallover



Define and monitor SLAs

- Contractual SLAs & KPIs
- RPO/RTO
- Security measures



Keep in touch with your provider

- Steering committee
- Change Advisory Board
- Incident review meetings

Authorities and proceedings

One of main points of attention is access to bank information by foreign authorities. If, for any reason, a foreign government wishes to access data from a Swiss bank by relying on the extraterritoriality of its laws (e.g. Cloud Act), it is imperative that the bank, as well as the competent Swiss authorities, are properly informed by the service provider and that an adequate process is in place. As such, the bank should submit to its service provider the right contractual requirements to guard against this and limit the level of risk.

Kyndryl Switzerland can assess and benchmark resilience maturity, gain visibility into significant threats and vulnerabilities as well as manage compliance with Security Assurance Services. Quantify your business risk and operationalize actionable threat intelligence to mitigate security risks faster.

Explore our services at www.kyndryl.com/ch/en

Kyndryl **designs, runs and manages** the most modern and reliable technology infrastructure that the world depends on each day, with the most talented global team in the industry.

Kyndryl was spun-off of IBM IT infrastructure services in 2021. Our global base of customers includes 75 of the Fortune 100 companies. With 88,728 skilled professionals operating from over 100 countries, we are committed to the success of our customers, collaborating with them and helping them to realize their ambitions.

We are committed to the health and continuous improvement of the vital systems at the heart of the digital economy. With our partners and thousands of customers, we co-create solutions to help enterprises reach their peak digital performance. Our world has never been more alive with opportunities. Together, we can seize them.

Kyndryl Switzerland GmbH is headquartered in Zurich with offices in Geneva, Lausanne, Bern and Lugano.

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Cloud

Enable digital transformation with a controlled, expert-led transition through cloud modernization



Core Enterprise & zCloud

Manage mission-critical workloads seamlessly by modernizing mainframes to handle high-volume, always-on computing



Digital Workplace

Enhance user experience and work location flexibility by providing a consumer experience to employees



Application, Data & AI

Improve business outcomes through data management and AI-infused operations that yield intelligent insights



Security & Resiliency

Maintain business continuity and constantly adapt to new threats and regulatory standards



Network & Edge

Prepare for the next wave of cloud with 5G-enabled edge and software-defined networking (SDN)



Felice Sorrentino, Swiss Advisory Leader

Kyndryl Switzerland has a large Strategy and Transformation Advisory team.

With world-class industry and technical expertise, Kyndryl's advisory and implementation services help you unlock maximum value across technology, data, and operations to accelerate your unique digital transformation. Our highly experienced consultants are backed by tools, architectures, roadmaps, and accelerators developed over decades of experience helping over 4,600 customers worldwide.

Be a catalyst for your business agenda and re-envision your transformation strategy by leveraging intelligent automation, advanced analytics, modern technologies, and new ways of working to drive increased agility and end-user experience. Co-create with Kyndryl's experts to reduce cost and complexity.