EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

ECB Guide on outsourcing cloud services to cloud service providers

Institution/Company
deltaconX AG,

Contact person

Mr/Ms
Mr

First name
Markus

Surname
Scharitzer

Email address
markus.scharitzer@deltaconx.com

Telephone number

☐ Please tick here if you do not wish your personal data to be published.

General comments

'deltaconX is a premier provider of regulatory compliance solutions, delivering comprehensive cloud-based services to financial institutions. Our solutions are crafted to help institutions meet their regulatory reporting requirements worldwide with efficiency and precision, utilizing cutting-edge technology to offer reliable and scalable services. We recognize the essential role that cloud service providers (CSPs) play in the financial sector, particularly in boosting operational efficiency, security, and compliance.

Upon reviewing the ECB Guide on outsourcing cloud services to CSPs, we have identified several provisions that may not fully account for the operational realities and needs of CSPs. While the guidelines are primarily aimed at protecting the interests of financial institutions, it is imperative that the regulatory framework also acknowledges the practical challenges faced by CSPs. A balanced approach that considers the interests of both institutions and CSPs will ultimately create a more robust and efficient outsourcing ecosystem. With this in mind, please find our considerations outlined below:

2.1.1 Full Responsibility on the Institution

Equivalent Risk Management Practices: Institutions must ensure that CSPs establish risk management practices equivalent to those maintained in-house. This could impose additional operational and financial pressures on CSPs to meet these stringent requirements. There is a lack of reference to the proportionality of these requirements in relation to the outsourced activity, the associated risk, and the structure of the CSP. This oversight could lead to disproportionately burdensome expectations for CSPs that are not aligned with the actual risks involved.

2.1.2 Pre-outsourcing Analysis (also 2.2.4 - Assessment of Concentration and Provider Lock-in Risks)

Consideration of Lock-In and Exit Risks: Institutions must consider the risks of vendor lock-in and challenges in identifying alternative providers. The guidelines do not adequately consider or account for cloud services that employ new technologies and have unique, stand-alone characteristics. These services provide significant benefits but may be penalized due to their uniqueness and lack of comparable alternatives, potentially discouraging the development of innovative technologies.

Long & Complex Supply Chains: In the European market, it is important to highlight a significant distinction from the landscape in other regions, particularly the United States. The European cloud service market is characterized by a myriad of small and medium-sized enterprises (SMEs) that provide highly specialized services. These companies play a pivotal role in the European Economic Area. This contrasts sharply with the dominance of large US-based cloud service providers, such as Amazon Web Services (AWS), Microsoft Azure, and Google Cloud which offer broad, large-scale cloud solutions.

Discouraging or avoiding complexer and longer supply chains could cause serious harm to the overall European market. SMEs would be forced to rely more heavily on established CSPs leading to further contraction of the market and over reliance on the aforementioned US vendors for the lack of comparative solutions within the European Economic Area.

The language should be adopted to support the backbone of the EEA.

2.2.1 Business Continuity and Disaster Recovery

Holistic Business Continuity Plans (end par. 2): CSPs must ensure robust business continuity, resilience, and disaster recovery capabilities. The ECB requires institutions to have backup procedures that do not rely solely on the CSP's cloud infrastructure. This could necessitate CSPs to develop additional off-cloud backup solutions, increasing their infrastructure costs. This could also lead to inefficiencies and increased risk of errors, counterintuitively affecting the reliability and resilience of cloud services.

2.2.2 Proportionate Requirements for Critical Functions

Portability (last par.): While we understand the need for portability and fully support the notion behind it, this paragraph does not consider all delivery models for cloud based services. While Platform as a Service (PaaS) and Infrastructure as a Service (IaaS) are properly reflected in this consideration, Software as a Service is disregarded. Many outsourcing arrangements come into effect due to the cost and risks associated with software development. For institutions that do not want to adopt these additional risks nor have the capabilities to do so,