

WHITE PAPER

7 OBJECTIONS ALTERNATIVE INVESTMENT IT PROFESSIONALS STILL HAVE TO THE CLOUD (AND WHY THEY CAN BE LAID TO REST)

Despite rapid advances in cloud technology, some IT professionals are still uncomfortable with the prospect of moving their data and applications to the cloud. Here, we explore seven objections IT professionals in the alternative investment industry have voiced with regard to migrating to the cloud, and show why these objections can be laid to rest once and for all.

OBJECTION #1: LOSS OF CONTROL

Control is a huge concern in the alternative investment industry. You are likely used to in-house systems that give you total control of your data. You don't have to log into a system. You don't have to comply with any oversight protocols. You can do what you want with the data at any time, without jumping through hoops to do so.

But total control and a lack of oversight, while they are personally convenient, also carry significant business risks. For example:

- **Multiple people in the company can access the data and change it so that it is completely worthless – and if the application is not architected properly, you may never know who did it or what they did to it.**
- **Data and files can be deleted without your knowledge.**
- **Viruses such as Cryptolocker can overwrite or destroy data.**

Having your data and software located in the cloud will limit your personal control of the data to some degree, but, in return, you can mitigate all of the above business risks. The cloud provides oversight to protect data, and accountability in the form of a history which documents everyone who touches a file and what they do with it. Automatic and consistent backups offer protection and recoverability against viruses, disasters, and other business interruptions, as well as human error.

OBJECTION #2: LIMITED CUSTOMIZATION

When you have data and software on-premises, you have the freedom to customize code at will. That ability to perform customizations will be limited with a move to the cloud; the amount of customization permitted will depend on the cloud provider and how their infrastructure is architected.

That being said, bear in mind that:

- **Customizations shouldn't be necessary.** The cloud solution you purchase should be chosen based on the fact that it is a good fit for the needs of your alternative investment firm. If that is the case, then customizations should not be necessary to gain the advantages the solution brings.
- **Customizations can be problematic.** If you perform software customizations, you always run the risk that future product updates will not be compatible with your customizations. You may end up having to use a legacy version of the code that will eventually be unsupported.

- **Customizations can aid your competition.** If your product vendor does offer to support your customizations, they might do so only with the understanding that your custom code becomes their intellectual property. The result? The vendor improves the product and your competition benefits from your hard work.

Therefore, although the cloud does limit your ability to perform customizations, in return, you receive a solution that always works optimally, and where you are sure to benefit from all upgrades. The cloud provider tests new software versions exhaustively to ensure quality, and makes it a priority to ensure that the solution is delivering as expected.

OBJECTION #3: THREATS TO JOB SECURITY

Understandably, IT professionals worry about job security. However, while migrating to the cloud will remove some tasks from your to-do list, those tasks are primarily the routine and mundane responsibilities you would likely rather not spend time on, such as patching, upgrading, and troubleshooting.

With the cloud provider assuming routine maintenance and support, you and your IT staff are free to focus on higher-impact items and core business initiatives ... the projects that too easily get pushed to the backburner now because of the daily demands of maintenance. Rather than making your job unnecessary, the cloud will enhance the importance of your role as you explore innovative solutions for your business and engage in continuous improvement projects.

OBJECTION #4: SECURITY CONCERNS

Concerns about security typically stem from a fear of loss of control. You don't want your data to be "out there somewhere." You want to know where your data is, who has access to it, and what they might do to it. You want to know about the security controls being implemented and be able to confirm them at any time.

But, ironically, choosing an on-premises route to ensure security can be a self-defeating plan. The reason? Your in-house security is only as good as:

- **What you understand about cyber-risks and security protections**
- **What you can afford to implement**
- **What you know how to maintain**

Suppose you have a small IT staff. Your team is responsible for all the IT concerns, upgrades, maintenance, and initiatives for your firm. You are likely over-worked and under-funded. How much time do you have to keep up with the latest cyber-threats? How much opportunity do you have to research security best practices and innovative software? Do you have the bandwidth to optimize the security program that is currently in place? What if your IT budget doesn't have room for the security protections you know you should implement?

When you choose a cloud provider, these concerns are mitigated. Yes, the cloud provider now hosts your data: it is “out there” rather than “right here.” But the cloud provider brings you security benefits you might not be able to gain by leaving your data on the premises. For instance:

- **You reap all the rewards of the cloud provider’s dedicated security staff: staff whose only job is to keep up with the latest cyber-risks and the security necessary to counter those threats.**
- **You gain the benefit of economy of scale, since the cloud provider makes significant security investments to protect all their clients.**
- **You can feel confident, knowing that security systems are constantly being assessed, tested, upgraded, and improved upon.**

A helpful analogy is to consider your own personal money. Is it safer to keep your money underneath your mattress, or inside a bank? If you keep your money under your mattress, you have to provide security for your entire house – managing every door, every window, and every person who enters and leaves. That’s a full-time job. But if you keep your money in a bank, you are automatically protected through the bank’s centralized and rigorous security protocols, systems, and personnel.

The same is true of the cloud. If security is a concern, then the cloud should be viewed as the solution, not the problem.

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OBJECTION #5: DISASTER RECOVERY

Disaster recovery is crucial for alternative investment firms, as you need to comply with applicable industry and federal regulations. When you move to the cloud, you do lose control over certain aspects of disaster recovery, such as when backups take place. However, you experience significant gains as well, including:

- **Data recoverability.** Your data will be saved in a data recovery center so that in the event of a crisis, no data will be lost.
- **Data quality.** Backups will occur automatically on a consistent basis. If data replication is used, you will have a near-real-time copy of your data at any moment.
- **Proven recoverability.** Your cloud provider should perform disaster recovery tests and exercises regularly and make the results of those test and exercises known.
- **IT cost savings.** With the cloud provider handling recovery, you no longer need to purchase hardware to mirror the equipment you have at your recovery site.

OBJECTION #6: CLOSED SYSTEMS ISSUES

As an IT professional, you may be concerned that cloud services will be a closed system; that is, that you won't be able to perform integrations, use APIs, or manage email in the way that you want.

Different cloud providers have different answers to this question. However, most will allow a certain level of integration, permit connection with defined APIs, and offer flexibility with regard to emails, etc. In essence, cloud providers close certain doors, but they ensure that the doors that can be opened are secure against cyber threats.

OBJECTION #7: COSTS AND BUDGETING

The question of costs is always an important one. The challenge is that comparing on-premises costs to cloud costs is comparing apples to oranges – very different costs are involved, and they need to be considered over the long term to gain an accurate picture. Estimating costs over a three- to five-year horizon is the best way to make a holistic cost assessment.

In-house IT includes costs such as servers, support, operating system licenses, databases, hardware refreshes, and IT staff. In contrast, moving to the cloud:

- **Eliminates the need to buy and install hardware, reducing IT spend.** Hardware is expensive, and requires manual installation. At Backstop, we estimate our average user saves \$15,000 - \$40,000 per year on hardware and IT services.
- **Provides instant access to updates and enhancements.** Software that lives on the web allows you seamless access to product updates, with no need to download and apply those updates. At Backstop, we estimate the average user saves \$10,000 every two to three years by avoiding upgrade fees common to locally-deployed systems.

WHICH IS BEST FOR YOU?

Can you keep your data and software on the premises? Certainly. But you have to be willing to assume greater risks to your data, possible security breaches, and ongoing and unpredictable costs. None of these are preferable for an alternative investment firm.

In contrast, moving to the cloud protects your data with the latest security measures, provides browser-based access from almost anywhere, and ensures central management of all systems, services, and infrastructure. Such a solution allows you to focus all your energy and expertise on your central priority: optimizing IT to maximize the productivity and profitability of your business.

ABOUT THE AUTHOR



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Michael Neuman is vice president, information security at Backstop Solutions Group where he oversees data and information systems security for one of the largest providers of institutional investment technology in the world. Neuman has over 15 years of experience protecting user data and meeting regulatory compliance. Prior to joining Backstop, Neuman served in numerous information security leadership roles, most recently as the Director of Security for Textura Corporation and the CISO for a major mortgage company in the Chicagoland Area. He has led compliance initiatives in e-commerce organizations based on the Payment Card Industry Data Security Standard, the Payment Application Data Security Standard as well as other security-focused compliance initiatives. In addition to his roles in information security, Neuman has led initiatives in Customer Relationship Management systems in the e-commerce space.

ABOUT BACKSTOP SOLUTIONS

Backstop Solutions Group is the leading provider of a comprehensive cloud-based productivity suite of solutions for the alternative investment industry, including hedge funds, funds of funds, pensions, endowments, foundations, private equity firms, consultants, and family offices. Founded in 2003, Backstop pioneered the industry's first cloud-based software that helps firms in the alternative investment management industry achieve greater business agility. Backstop's comprehensive suite of solutions includes Backstop CRM, Backstop IR, Backstop Research, Backstop Portfolio, Backstop Portal, and Backstop Accounting. With offices across the United States and in Europe and Asia, Backstop now serves over 700 firms worldwide, making it one of the fastest growing software providers in the financial services industry. For more information visit, www.backstopsolutions.com. Or get [LinkedIn](#) with us!

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