Indian Economy · GS - III

Discuss the risks associated with the growing dependence of financial institutions on third-party cloud service providers. Suggest measures to strengthen the resilience of digital banking infrastructure.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 21/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

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Answer Hint

Cloud Computing, Digital Banking, Third-Party Risk, Operational Resilience, Systemic Risk, Cybersecurity, Data Protection, Disaster Recovery, Business Continuity, Regulatory Oversight.

Model Answer

Introduction

Digital banking increasingly depends on cloud computing for data storage, payment processing and online services. However, outages at major cloud providers can disrupt multiple financial institutions simultaneously, exposing vulnerabilities in digital infrastructure.

Main Body

Major Risks

1. Service disruption: Cloud outages can interrupt online banking, payments and other essential financial services.
2. Concentration risk: Dependence on a few major providers creates common points of failure.
3. Data security: Poorly managed cloud systems can expose sensitive financial and customer information.
4. Systemic risk: Simultaneous disruptions across banks may affect public confidence and economic activity.

Measures to Strengthen Resilience

1. Redundancy: Maintain backup systems and alternative infrastructure.
2. Multi-cloud strategy: Reduce excessive dependence on a single provider where practical.
3. Disaster recovery: Regularly test recovery and business continuity plans.
4. Regulatory oversight: Strengthen third-party risk assessments, incident reporting and compliance with applicable financial-sector regulations.

Conclusion

Cloud computing improves banking efficiency but introduces interconnected operational risks. A combination of robust backup systems, effective regulation and tested recovery mechanisms is essential to ensure reliable and resilient digital financial services.