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In a world of cost pressures and increasing efficiency demands, an outsourced reconciliations solution could be the difference between smooth sailing and trades failing, says SmartStream's Christian Schiebl

Financial institutions are under pressure to improve efficiency and reduce their costs—where is this coming from? Is new regulation still a burden, or is demand coming from investors?

The pressure to increase efficiency and reduce costs is not only coming from the additional regulatory requirements, that some might consider a burden, but also from the banks and financial institutions themselves. Developments over the past eight years have shown that, to a certain degree, investors are actually requesting these regulations. They want the additional assurances that their investments are secure. However, the banks still need to earn sufficient margins and, though it would be easy to over-compensate for the costs they incur due to increased regulations, the savings, and ultimately the revenue, must come from efficiencies realised through better and more accurate processes.

The main catalyst for this improvement of efficiency and reduction of costs is globalisation. As the competition within the markets increases it drives innovation, cost-efficiency and enhanced service levels, as well as leading to stricter international rules. Regulation is the key factor forcing the players to balance risk with necessary investments and stable commercial success, all while maintaining competitive margins.

On a technical or infrastructure level, standardisation is perhaps the most elementary driver. However, it is regulation that necessitates the development of this level of standardisation, so solutions such as the SmartStream Corona Suite can play an intricate role in lowering cost through improved automation and reduced operational risk.

To what extent can a product like Corona help asset managers to control things like risk and liquidity?

Managing assets, cash and liquidity is the key task for treasuries and asset managers around the globe. However, globalisation, rapid company growth and market volatility make it increasingly difficult to gain full visibility of an institution's cash positions.

Corona supports firms by effectively managing risk exposure through the rapid identification of position breaks and failed trades, while providing real-time access to information on all securities transactions and positions. It also monitors and controls the full lifecycle of all transaction process workflows, from the initiation of a new workflow through to its final successful settlement.

It is important to identify any unexpected situation early in the process and to correct it. This means exceptions are prevented at the outset rather than solved later on, if a solution is even possible at that point. This enables institutions to focus on exceptions at the earliest opportunity, with the aim of reducing operational risk. In a nutshell, Corona can:

- Monitor all interfaces to external parties such as brokers, clients, corporates, custodians, and central clearers;
- Connect all business units to access critical data to support time sensitive financial decision making;
- Process and control corporate action workflows; and
- Provide important daily portfolio management functions, such as real-time balance control of quantities of financial instruments, their net asset values, and the associated cash positions.

How much can efficient reconciliation speed up the transaction process? What kind of value can be realised?

Often securities or cash reconciliation is relegated to the back of the back office as something banks just simply need to do. This is a very insular view and does not tackle the actual requirements.

SmartStream's Corona is designed to automatically control the complete process lifecycle across different divisions of a large organisation, as well as external parties, delivering better supervision and visibility for all transactions. It has to be more than just a reconciliation solution, although it offers the advanced reconciliation and matching algorithms. Over the last 10 years, SmartStream has developed solutions for full operational control, which deliver greater efficiency, while reducing operational costs and risk through exception prevention and detection and enhanced transaction management.

Identifying and raising exceptions at an earlier stage of the transaction—pre-rather than post-settlement—not only allows for automatic correction of the cause of a potential issue, it also provides a more accurate view of positions, enabling institutions to make more informed funding decisions. Additionally, it also increases customer satisfaction and therefore adds a competitive advantage.

Will new technology, such as blockchain, transform the reconciliations space?

Corona has always been at the forefront of innovation, helping banks to develop or follow the latest industry trends. Blockchain has recently become an industry buzzword, but at the end of the day it is no more than another step on the way to a future in which infinite virtualisation is the norm. Becoming paperless was one of the first steps. Goods such as music and literature no longer need a physical representation, but can now be centrally hosted. The same will not only happen to cash, but also to many other financial instruments.

A central repository that offers the ability to change any financial instrument's ownership within milliseconds naturally sounds very exciting, and the shipping of all required transaction information inside a DNA-like technology even sounds familiar—nature has managed this for millennia. From a technical standpoint, this isn't that big a challenge, even taking into account the extremely stringent security mechanisms.

In reality, many processes would become much easier, but everything would need to be replaced, starting with infrastructure. However, one of the little discussed aspects is the effect it would have on market players and key functions, many of whom would now be rendered obsolete. Clearing agents, settlement providers, payments processors and central authorities would all be made redundant.

In reality, there should be no doubt that this evolution is inevitable, but it will take decades to get there. SmartStream's Corona solution is designed to deliver best practice for automatic process control of workflows. All kinds of industries will benefit from 'block change' in the same way they benefit from any other attempt to harmonise and unify the business-to-business, business-to-consumer, and any other X-to-Y rules.

To put Corona in that context—all of this will be necessary to significantly increase the number of global transactions in the coming decades. This will exponentially increase the necessity of preemptive and automatic monitoring, control, and reporting mechanisms—services Corona already provides. Unexpected cancellations, system failures, human mistakes, and fraud will not disappear, and without a solution for handling all potential exceptions, these issues will become the largest cost barrier on the way to such a future industry.

The post-trade environment is a busy one. What is SmartStream doing to stay competitive?

The most important factor in a post-trade environment is cost efficiency. The biggest cost driver is the correction of problems caused by errors in data, system failures, human mistakes and fraud. The vast majority of those mistakes are already triggered pre-settlement. This means that prevention of such mistakes, or at least early pre-settlement detection, would significantly reduce efforts, and therefore the overall costs—and not only in the post-trade environment.

To achieve those cost reductions, Corona, as an operational control solution, expands a virtual control grid across the entire organisation, across all departments and all systems. By doing that, a financial institution not only gains control over its end-to-end processes from the front to back office, it also gets an instrument in place that is able to detect any mistakes early on in the process, and to automatically correct them. This prevents exceptions that would otherwise need manual intervention.

In addition, SmartStream delivers complementary solutions and services designed to further increase the efficiency of financial institutions. Erroneous data is one of the main cost drivers, and delivering correct data would automatically decrease the number of exceptions significantly. The SmartStream Reference Data Utility is setting a new industry standard when it comes to the quality and accuracy of reference data.

Corona seamlessly integrates with other SmartStream solutions for cash and liquidity management, collateral management and corporate actions processing, among others. And, especially in the context of this question, we should not forget SmartStream's fees and invoicing service.

Ultimately, cost reduction can be achieved by outsourcing wherever an institution can profit from economies of scale, whether it's outsourcing only the technical environment or going further, outsourcing operations as well. The Corona solution, along with the other SmartStream solutions and services, is delivering both options to its clients already.