



A cloud with a silver lining

Buyside firms are looking to move back office applications to the cloud. Peter Hainz of SmartStream examines the driving forces behind this trend.

Interest in cloud adoption is growing across the buyside, with firms turning to the cloud in the hunt for innovative, scalable solutions that will allow them to update legacy infrastructure and reduce the total cost of technology ownership.

The buyside faces a variety of pressures. Growing transaction volumes create headaches for large asset managers while smaller companies, although processing fewer transactions, must shoulder burdensome infrastructure and

maintenance costs to keep up service levels. Greater regulation and unpredictable markets have increased costs per trade and transaction, while budgetary constraints keep IT headcount flat.

Responding to industry feedback, SmartStream offers cloud-based support and management for its applications. To provide maximum flexibility, we have created a tiered, three-stage process. The first stage sees SmartStream maintain a client's applications from an IT perspective. If required, clients can

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Peter Hainz, SmartStream

progress to a second step, with SmartStream taking on IT change management. To further drive down overheads, some firms move beyond pure cloud services to a third level, full business process outsourcing. This involves us managing technology and operations, e.g. end-to-end processing, management oversight, business continuity, as well as risk control and analytics (which could, potentially, be supported with AI tools).

Reducing overheads

A major factor propelling the move towards the cloud is the need to reduce costs. Asset managers are eager to outsource operations that provide no competitive advantage: shifting applications to the cloud, to be maintained by vendors, enables firms to cut overheads and focus on core strengths.

Companies hope to reduce TCO. As one leading asset manager remarked, “We are looking at lowering the total cost of ownership of our back office applications by moving them to the cloud”. Overheads are minimised as no hardware is required, nor are software licences needed. Software and hardware upgrades are performed by the vendor, while support and user training costs are brought down, too.

Where such services are offered on a transaction volume-based model, improved budgetary control can be achieved. The cost structure can be treated as part of the operational budget, which financial institutions prefer to up-front capital expenditure. The model can also be scaled up and down to suit business requirements and budgetary pressures. For example, a large asset management company, following the acquisition of a smaller firm, found that transaction volumes had increased heavily and could not be handled with existing technology. With our assistance, the company moved to a hybrid strategy, managing part of the volume on premise, part in the cloud. Once the benefits of the cloud-based approach became apparent, the asset manager shifted processing there entirely.

A rapid, cost-effective route to adopting new technology

Buyside organisations want to upgrade their technology but are keen to avoid lengthy, expensive implementations. The cloud provides a quick, cost-effective adoption route. Clients are live within weeks, while dependence on in-house staff for hardware set-up, software installation, configuration, training and maintenance is reduced, or even eliminated.

Harnessing the power of data: AI analytics & MI dashboards

Generating profits using current analytical capabilities is a tough call for the buyside, due to its small back office and the unpredictability of today’s markets. The cloud offers a way forward, however. Its scalability and flexible storage capacity make it an excellent platform from which to analyse data. AI analytics can be run on large amounts of information to provide business insights and increase competitiveness. In the case of transactions management, AI may potentially support firms to achieve faster data loading and exception management.

Financial institutions want to trade more efficiently and are interested in measurable outcomes that can be tracked via management

dashboards. Building the tools to gather such business intelligence is time-consuming and hard to achieve in-house. SmartStream has developed MI dashboards as part of its cloud offering. These can be used to analyse trades, e.g. to monitor manual rates, automated matching rates, and STP rates.

Regulatory approval of cloud-based services

Changing attitudes on the part of regulators are also playing a role in encouraging cloud adoption by the financial sector. De Nederlandsche Bank (DNB), the Netherlands' national banking regulator, was one of the driving forces in Europe that enacted legislation permitting financial institutions to use cloud-based services. FINMA has allowed the use of cloud-based services in Switzerland, too.

Security and data protection

Intensifying regulatory oversight and ever-expanding reporting obligations are driving cloud adoption, too. Firms must pay careful attention to security, though. A vendor's platform hosting environment must comply with the highest standards of information security management, including ISO 27001 and SOC2. Regulators insist that cloud data protection and security practices are regularly certified by auditors to verify that the solution is fully compliant.

Smarter use of resources, up-to-date applications & operational excellence

Financial institutions spend a great deal of time on manually intensive, on-premise tasks, such as manual matching. If a SaaS platform solution is managed by the vendor, valuable in-house resources are freed up to concentrate on strategic projects.

Smaller buy-side firms often have only one person running an application and difficulties arise if that individual moves job or retires. Where an application is run by a software provider, this worry is removed.

Taking care of upgrades binds in-house resources. Putting applications into the cloud, where they can be managed by the vendor,

alleviates this. The vendor will also ensure that applications are running on the latest version and are kept up to date with security and other patches.

And then there is the question of operational excellence. After all, who can better operate and maintain an application than the people who built it? Vendors often guarantee industry best practices in relation to monitoring back-up, archives and other housekeeping tasks for their applications.

Other considerations: green finance

When an application is supported remotely in the cloud, travel is reduced, lowering greenhouse gases. With concerns over climate change heightening – for example, at the German Central Bank Bundesbank Symposium 2018 the key focus was 'green finance and climate change' – this aspect is likely to grow in importance.

Blockchain in the cloud

Financial institutions are building consortiums to develop blockchain applications. Thanks to its scalability, the cloud is a great place for blockchain services. For example, Amazon Web Services (AWS) opted for blockchain, announcing distributed ledger services.

Business continuity

The cloud often provides superior business continuity and disaster recovery technologies to on-premise solutions. One reason for this is that cloud computing relies heavily on hardware independent virtualisation technology, another is that cloud services (e.g. AWS) are redundant in different availability zones.

In conclusion

As a recent SmartStream customer conference highlighted, there is considerable interest in, and acceptance of, cloud strategies across the financial industry. Regulators' attitudes to cloud adoption are increasingly positive, while there is also greater reassurance as to security. Now, the author believes, is a better time than ever to make a move to the cloud. ■