A-TEAM INSIGHT

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SmartStream's Philippe Chambadal on the Data Utility Proposition

Legal Entity Identification Standards in Focus

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Philippe Chambadal, CEO of **SmartStream**

A-Team Insight speaks to SmartStream's Philippe Chambadal about how he has aimed to transform the fortunes of the data utility and back office processing solution vendor since his appointment as CEO of the firm back in 2009.

Q How has SmartStream weathered the recent tough market conditions?

We have managed to grow consistently throughout the last three years in spite of the tough market conditions. This has mainly been as a result of investment activity from tier one sell side firms and the buy side.

We have seen a lot of pressure put on the tier one firms around meeting new regulatory requirements in terms of providing better transparency, better operational risk controls and getting a better handle on their liquidity. Banks are therefore looking to improve their middle and back office processes to meet the new requirements and, alongside that, reduce costs. Older batch-based processing systems can't deal with the requirements of the current market and therefore firms have to retool post-trade operations in order to cope. Trading volumes have increased, while the value of trades has decreased, which means that the back office has been put under increasing pressure and firms are being compelled to keep processing costs as low as possible.

It has been especially challenging for tier two and three banks, who have had limited funds to invest in technology over that period and hence we have seen less activity from these firms. However, the first quarter of this year has seen these firms begin to consider investment in their operations. We have witnessed a resurgence in queries from these firms about our shared service centre approach to areas such as corporate actions data, reference data and back office processing. The focus is increasingly on creating a centralised resource for this data accessible from across the bank, which enables better risk management and an easier regulatory reporting process.

This trend towards a more enterprise-wide approach to data is also being reflected in the demographic of the executives we speak to at the outset of a deal. Rather than contact at a divisional level, we're dealing with heads of operations. The financial crisis seems to have highlighted the benefits of a shared services approach to data and processing, in particular its ability to reduce risk and deliver economies of scale.

Many firms that initially went down the offshoring route are also now looking at moving to a shared service centre approach to certain segments of their back office operations.

> "The US in particular has seen a great deal of growth in terms of new customers, with a 400% increase over the last two years."

On the product side, software as a service (SaaS) has become increasingly popular as an option and we have been working with our clients to determine the return on investment (ROI) for them of this move. There are much shorter timescales involved in achieving ROI with SaaS and we are able to provide them with metrics to measure this during every step of an implementation.

Q How has the impending sale affected business and what are your plans for 2011?

There has been no negative impact this year on our business as a result of SmartStream being for sale, it has been very much business as usual.

We have been signing partnerships with a number of large business process outsourcing firms and professional services firms over the last year or so, including TCS, for formal tie ups across our TLM suite. These partnerships allow us to increase the speed of our pilot processes and rapidly prove the benefits of the TLM solutions. The sales cycle has been greatly reduced as a result and it gives us much more scale and flexibility to allow clients to reduce the number of vendors they have to deal with, which they are keen to do.

The utility services approach is another key development for us this year and we are working to enable greater STP within our clients' firms. By reducing the biggest cause of trade breaks, the mismatching of reference data, we are able to offer our clients the benefits on enhanced STP. Our reconciliation engine has been tied into our utility offering to achieve just this and by dealing with data cross referencing; we can deliver a 20-30% cost reduction for our clients.

How does your utility offering fit into the wider reference data space and how is regulatory change affecting the market more generally?

The more clients that connect to our DClear services or use our reconciliations solution, the more clean trade data we have that can be used by clients for regulatory reporting purposes, among other things.

There have been a lot of discussions around the globe about the potential for a reference data utility and we would be happy to get involved. We already have clients using a utility for this purpose, so it is proven to work. We will also be working with our clients to help them meet the new data requirements that come out of any related regulations.

Every time a new standard is created, the old ones do not disappear unfortunately, so firms have to be able to cross reference between these standards in order to conduct business. That's why it is hard to believe that there will ever be a single standard for the whole market. So many standards are embedded into firms' back office processes; therefore a translator to navigate between all of these data sets is needed today and will continue to be a requirement in the future.

What have you been most proud of at SmartStream in terms of your own personal performance?

I have been pleased to bring the shared service and utility models to SmartStream, as well as successfully launching our SaaS offering. The reference data utility in particular was a significant achievement to get the platform launched and the first client onboard within eight months, regardless of the market conditions. We also believe it is the only multi-tenant architecture in the market that provides these reference data capabilities. We have built algorithms to clean up the data and we are delivering, on average, 99.3% accuracy on firms' data. That is good by any measure.

In terms of market coverage, we have increased our footprint in North America and Asia and our visibility within markets in those regions such as Japan. The US in particular has seen a great deal of growth in terms of new customers, with a 400% increase over the last two years. Previously, SmartStream was quite European focused but we have since expanded the global team and attracted a high level of talent in that endeavour.

"There are much shorter timescales involved in achieving ROI with SaaS."

But my real obsession is client focus and ensuring that we are seen as a trusted business partner to firms with which we work, right from the pre-sales process. We have a deep understanding of the world of the back office and that is reflected in the way we are perceived by our clients. I feel we are better than our competition because we are thoughtful and systematic about meeting our clients' requirements and building software to meet that, not offering software that they must change around. That is critical.

How do you think SmartStream is positioned in the wider vendor community?

There are very few other vendors of a similar mid-size to us and this is good for our positioning because larger vendors may find it hard to innovate, whereas smaller vendors struggle to scale their businesses. We also spend a lot on R&D – our levels of R&D activity have never dropped below 20%.

Largely, it is the same vendors competing with us in the market that have always been there, although a few names have disappeared in certain markets and business areas.

What's next on the cards for SmartStream in the short term?

In terms of future growth, a central strategy for us will be working with key partners in the market, such as Misys, to target the asset management community.

I also see a trend where financial institutions will need to decide on what they are good at and what offers no business differentiation that they can then outsource to vendors. I believe this will include a lot of middle and back office processes, which are already benefitting from a shared services approach but could expand much further.