SMARTSTREAM TECHNOLOGIES: Taking a consultant's approach

TFT's Katia Lang and Charley Brooke Barnett sat down with **NADEEM SHAMIM**, *Strategic Advisor Cash and Liquidity Management at SmartStream Technologies, to discuss all things Brexit, regulation, and liquidity management.*

TFT: How do you see the regulatory climate changing in the UK in light of Brexit?

Nadeem: Quite frankly, we don't know what Brexit will look like. The only comment I have on that is that the number of Basel III and regulations that PRA is following around liquidity and banking, are based on CRD IV, and that's a heavily EU based regulation. So potentially, we don't know what it would be. Impactful, but difficult to say.

The challenge is London has been a hub for many financial institutions, whether they're UK based or further afield outside of Europe, to be the hub for services to be provided throughout Europe. So passporting is going to be a challenge. At the moment, we can be based outside of the UK and serve Europe. As you are aware, banks are already looking at setting up subsidiaries. Not only a branch, but a subsidiary, in Dublin, Amsterdam, Paris, you name it, and vice versa. European banks are looking to set up subsidiaries here as well, because they know this is still a financial centre. They may not need to be in the UK to trade with Europe, but they need the knowledge and the liquidity of the London market to trade in a broader sense. I think passporting would be a challenge around it.

In terms of liquidity management, you have to start managing liquidity across more than one entity. Let's say you've got two entities, one in Paris, and one in London, managed by two different regulators. But at the same time with PRA, if it's a Brit company's subsidiary in France, PRA wants to regulate both of those, but the French central bank will say I only focus on the French one. There's a bit of a clash of regulation, especially if they start diverging. So there's a bigger challenge. On the back of that, the oversight and reporting from more than one entity will be cumbersome and costly, so you don't know what solution to put in place.

TFT: What are the biggest concerns for your clients when it comes to not only Brexit, but also modernising?

Nadeem: There is the cost of managing a bigger and broader balance sheet. Think about two balance sheets as opposed to one. Not just from a technology and Brexit point of view. Ability to use internal funds effectively; I talked a little bit about pooling and the restrictions and cost of that.

The cost of borrowing of the new entity: if you set up a new entity, the credit rating may take a while. It may not necessarily have the balance sheet to borrow locally or the strength locally as well. The internal systems that are created using those legacy systems may not be flexible enough to respond to different regulatory requirements and reporting requirements. Tier 1 banks can do all that relatively effectively across multiple entities because they're used to it. Smaller banks will have to open a second entity, they're not used to it, it's all going to be manual, so it's going to be pretty tough I think going forward.

TFT: What are the next steps for banks to become more efficient when it comes to meeting regulators' demands?

Nadeem: Work with the likes of us, because you need to be able to automate the regulatory reporting challenge. Currently many banks, even Tier 1 banks, although they have some automation, a lot of it is still manually processed. I was speaking to a Tier 1 bank and they said, yes we can get all the information from our banks and our internal systems, but as soon as there's a late requirement, it completely throws our liquidity management. This is a Tier 1 bank saying this - I could not believe it. As you go down the tiering of banks, they can certainly do the forecasting on intraday based on internal flows but they cannot reconcile against the actual flows. They can do that at the beginning of the day, but that's it, that's where it ends, and they just have the internal flows coming in and that's the requirement. But you never know when an unexpected payment has come in that you didn't know about and that has an impact on your overall liquidity. Or a payment somebody forgot to tell you has gone out, that you didn't know about. So that still remains a problem, especially if you don't have integrated systems.

What is interesting right now, where we can help in meeting regulatory requirements, is with that automated proposition you can manage the intraday liquidity in a more active way. A proper system will actually allow you to have visibility on it and monitor it more effectively. So it becomes a more dynamic view of the flows. I think the things that banks could do is install a flexible system that gathers the information. In order to actively manage intraday liquidity, they end up needing larger buffers with their banks and correspondent banks. They cannot necessarily handle late payments. Front office will close their books around 2 o'clock when the liquidity is still pretty efficient. So the banks need to be a bit more dynamic around it.

I was talking about having systems which are flexible to gather information, which means if it's an integrated solution, then any changes in liquidity would automatically get uploaded into the front office cash managers' dashboards. They would see an alert pop up to say, here's a late payment or late request that's come through. You need to act on it, as opposed to forget about it.

But also with Brexit changing regulations, what if you need to suddenly start looking at the data in a different way? If you don't have the ability to gather data efficiently, then you don't have the ability to respond to requirements effectively either. Thinking ahead, I suggest using AI and machine learning to get the data to provide you with the information required.

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TFT: What more can be done by solution providers to bring banks in-line with current guidelines?

Nadeem: SmartStream provides tools to help you meet the guidelines, we don't bring the bank to the guidelines. The reason why we think we're in a good position to do that is because we talk to regulators ourselves. Then on top of that, because we are dealing with multiple clients, we can see different solutions. If you look at a large global bank, they will have some parts of the process that are very similar to other organisations. But then there is a large proportion that provide bespoke solutions, which are not easily transferable. However, we can take different ideas from different organisations and see how their system is being used and create a best proposition for a Tier 2 & Tier 3 client. It's like being in a consultant position, having the ability to see multiple clients and then suggest best practice, 'XYZ.' So this is where we can develop our solutions in a more coherent way.

TFT: How are you working on blockchain?

Nadeem: Yes, we have already integrated with Ripple. If you're making payments through a Ripple platform, or trade finance through Ripple platform, or any blockchain platform, that has an impact on the accounts. Whether they are cryptocurrency accounts or whether they are a bank accounts. Cash flow is generated at the end of it and that has an impact on liquidity. It's effectively such that instead of taking a swift message, you take a message from blockchain and then put the information on the dashboard and show them where the liquidity is and how it's being managed. So absolutely it's been straight forward and we're ready for it. We've done a proof of concept, which was successful. As soon as our customers want to put that in live, we will do it.

In terms of blockchain, it requires the entire ecosystem to be responding and you've seen in the news, yes, they are making payments but they're peer-to-peer payments between one and two banks. They're not talking about their own money either, they're talking about for example a client who's done a blockchain payment or they've issued a letter of credit on the blockchain. Has that integrated with the payment system? No, it has not been very clear, so I think there are multiple elements.

If you look at the simple movement of goods from one part of the world to the other under trade finance, there is the actual physical element of the good itself that needs to go on a letter of credit that then becomes a smart contract. Then, it has to have triggers in place. The warehouse receipt has to be on blockchain, i.e. where the goods are stored and need to be on blockchain, and then the tax authorities need to be on blockchain and it links in with the banks. You can see there's lots of integration needed. ◆**TFT**