

Untapped Opportunities In Trading Cost Savings

Financial institutions pay out millions of dollars in agent bank and custody fees. Bharat Malesha, EVP of SmartStream, believes firms struggle to achieve visibility and control over costs and so fail to curb overheads – with the right help, though, they can address this situation surprisingly quickly.

As transaction volumes rise and drive costs up, the pressure on institutions to understand and control spending has intensified. Agent bank and custody fees can easily reach \$50- \$250m annually for large firms and so surfacing potential cost-efficiencies is an untapped area of focus for network managers.

Getting to grips with this expense category is complex, especially for big financial institutions, where network managers may be responsible for fifty to two hundred relationships with agent banks. Additionally, fee schedules often run to tens of pages with complex tiering and volume discounts, while pricing models change regularly, and agreements are only rarely automated.

The undertaking is further complicated as banks typically employ multiple systems to process cost-related data across their different business lines. These systems tend not to interact, manual effort also persists, and the resulting state of semi-automation prevents firms from gaining a holistic picture of expenditure. Furthermore, a lack of granularity hinders banks from obtaining a detailed understanding of how and why overheads are incurred, making it difficult to control costs, assess the profitability of different strategies and clients, or even pass spending back to customers.

To achieve transparency and better control, banks must centralise cost management activities and improve processes and technology. With extensive IT infrastructure projects an increasingly unwelcome prospect for some organisations, a managed service, which also offers access to a sophisticated technology platform, provides an attractive alternative.

Large banks currently spend between \$100m and over \$2bn per year on brokerage, clearing, exchange, regulatory, settlement and custody fees – making this one of the largest expense categories and an area that does not receive the same level of diligence as other operating expenditure. SmartStream's Fees & Expense Management service, which presently supports eleven Tier 1 to Tier 3 customers, including the six top international (non-US) banks, assists financial institutions to manage these costs efficiently.

The service uses a combination of advanced technology and highly experienced SMEs. It automates processes and consolidates expense-related information so that costs can be handled in a standardised, enterprise-wide – rather than fragmented – manner. The platform currently handles \$2.5bn in fees annually, including over 90,000 invoices per year.

Fees & Expense Management is a modular service and can be deployed equally successfully by large and small firms. Its use of experienced product specialists allows a rapid onboarding time of four to six months, meaning financial institutions can tap quickly into considerable experience. Firms also avoid expensive, time-consuming infrastructure projects.

Substantial savings are achieved for clients. During 2023-24, Fees & Expense Management Network managers created \$50m in cost optimisation across its customers. It has identified some \$5m in rebates and over charges from brokers and agent banks in the last two years alone. The service regularly helps banks make quick wins, for example, through rate negotiation, demand management and cost saving strategies – enabling users to make sizeable annual savings, which grow cumulatively.

In conclusion, banks are under ever-growing pressure to cut their financial outlay. Industry leading solutions, such as SmartStream's Fees & Expense Management, provides network managers with access to a specialised service that delivers greater transparency into agent bank and custody fees, creating valuable insights and assisting firms to identify potential cost-saving opportunities – making it a useful ally in the battle to rein in expenditure.

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