FUTURE BANKING
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SMARTSTREAM

Post-trade solutions for a post-pandemic world

How SmartStream is revolutionising banking through data

The world has changed in many ways since the start of the pandemic. Back then, the big question hanging in the air was how banks and businesses would respond to a zero-interest rate environment. Now, we are looking at the prospect of a recession with both inflation and interest rates rising at rates not seen in decades.

The war in Ukraine has brought further challenges, including the freezing of Russian assets. Additionally, banks are adjusting to the continuous waves of new regulations governing payments, all while settlement times are contracting and expectations from customers are for execution times to be reduced from days to hours and minutes.

This is happening while competition among the big banks continues to increase and new competition from challenger banks and fintechs has arisen. Data is the new currency and data management solutions are the new weapons.

All parties, from Tier 1 banks to the more agile fintechs, need access to high-quality data and lightning-fast reconciliation systems and streamlined exceptions management solutions.

Every single one of these challenges is firmly on the radar for SmartStream Technologies. SmartStream offers purpose-built solutions specifically designed for the challenges businesses are now facing as well as those they will face in the future.

Whether its their AI-enabled data reconciliation module SmartStream Air, the new Lightning product that automatically generates matching rules to speed the onboarding of data sources, the newly launched exceptions management system or the company's cash and liquidity management platform that helps banks maximise revenues in a world of rising interest rates. They have listened to what their customers asked for and delivered.

In an ever-changing world, innovation must be constant, and innovation is in SmartStream's DNA.

Pushing the button on cash and liquidity

As we emerge from the pressures of the pandemic, we entering a new era of rising interest rates – and banks need to respond if they want to stay successful. Peter Dehaan, global head, business development for cash and liquidity management at **SmartStream**, tells Jim Banks about the opportunity banks have to profit from more efficient cash management processes.

In the not-too-distant past, the world was talking about how to manage in a zero-interest rate environment. Though familiar in Japan, where interest rates first hit zero in 1999, other major economies were still relatively new to the concept as recently as 2020. Stable investments would yield little return, so there was greater risk to capital from chasing higher yields. How quickly times have changed.

Now that inflation is the word on every economist's lips, followed closely by recession, central banks are raising interest rates and everyone is adjusting to a new paradigm. In the UK, the bank rate hit 5.75% in late 2007, then plummeted to 0.5% in early 2009, then 0.1% in 2020. Since the start of 2022, it has jumped sharply to 3%, and is set to continue rising. In the US, the Federal Reserve is targeting a rate between 5.1 and 5.5% . With euro and sterling going to 4.5/5%.

Interest rates have risen sharply in the UK in 2022, changing the financial landscape once again.

"Post-pandemic, there has been a realisation that, having scrambled through, they can now move to a different environment and see what is out there," says Peter Dehaan, global head, business development for SmartStream's TLM Cash and Liquidity Management solution. "Those are the conversations we are having now. But there is a technology aspect they have to consider."

"Now is a good time for banks to look at cash and liquidity management," Dehaan continues. "In that area, banks needed discipline when interest rates were low, but now that we are in an era of higher rates it could cost them money if they don't look to optimise efficiency."

Time is money

Dehaan has seen the workings of big banks from the inside and fully understands their approach to cash and liquidity management. Having started out as a money broker before spending 16 years at Citibank, he moved to Lloyds in 2013 to help the organisation bring deposits onto its balance sheet.

"SmartStream came to me to look after its cash and liquidity management solution, which is all about winning hearts and minds. That can take a long time, but I know a lot of treasurers and senior operations people. This company has been around for more than 40 years and it has a lot of clients and many close-knit relationships, so I am talking to not only Tier 1 and Tier 2 banks, but also challenger banks and all of them need help.

"Big banks often have antiquated and fractured infrastructure in many places, and in a low interest rate environment project inertia won through in many cases," Dehaan adds. "But in an inflation-controlling world we are seeing rates go up all over the place, net interest margin is going through the roof, and banks are able to make money hand over fist. However, any latent liquidity costs them money."

Peter Dehaan, global head, business development for cash and liquidity management at SmartStream.

According to Dehaan, banks are always looking to review how liquidity is managed. It is an issue that never drops off the agenda. Nevertheless, discussions of how to achieve greater efficiency do not always lead to a review of technology or the initiation of a new IT project. That may need to change.

It is becoming increasingly apparent that errors in cash and liquidity management now cost more, especially given the continued rise in interest rates. Furthermore, banks that are making money in this environment have more cash to spend on investments in solutions that can increase that revenue stream.

"The focus got distracted by the war in Ukraine and, before that, Covid-19," Dehaan believes. "The war highlighted the need for stress testing. After all, when sanctions were imposed on Russia a whole asset class was frozen overnight and that had an impact on high-quality liquid assets (HQLAs)."

"Now, a lot of roads lead to reducing manual intervention in cash and liquidity management, as well as the need for real-time information," he says. "Our systems are invaluable to treasurers for modelling different scenarios for regulatory reporting, so there is a lot of good that we can bring to the table. We are always there to complement and partner with banks, rather than telling banks to get rid of all of their old systems. There is the option to take only the functionality from us that can make a real difference."

SmartStream can help banks by delivering real-time data, streamlining regulatory engagement, reducing manual processes and much more. Clients may not need everything SmartStream has to offer, but can take whatever makes the most difference. Like most of the company's products, its cash and liquidity management solutions are designed to be flexible according to client needs, rather than being sold as a monolithic system.

"The question banks need to ask is whether they buy, build or bolster," says Dehaan. "Do they bolster a solution that already doesn't work well enough? Do they build something themselves? This could be possible if the bank is big enough but even then it might not be the best option. Or do they buy from a trusted organisation that has been around for a long time and has worked with the world's biggest banks?"

No time to hold back

Even big banks with the money, time and expertise to build a solution in-house can fall short of the efficiency needed to maximise the potential of cash and liquidity management. There are instances where major international banks have so many feeds coming in at any one time that they can only get a 60%-accurate estimation of their position. What's more, efficiency is not the only incentive for investing in a new solution.

"It is said that regulators are now looking for control and governance for monthly reports to be of the same standard as annual reports, and that they be auditable enough to tick all of the same boxes," Dehaan says. "So, banks are trying to be more proactive in terms of what regulators want. They have seen some big fines levied and they want to do the right thing sooner rather than later."

"There is even an ESG angle," he continues. "In the deployment phase, moving from on-premises to cloud-based solutions. The spin up to the cloud means you are no longer in the position of using just 20–25% of some servers, so you eliminate that waste of energy."

SmartStream's solution addresses a fundamental issue for banks. Cash and liquidity management is all about intraday matching and the world is moving steadily towards real-time matching, which will help treasurers to react appropriately to their positions at the end of the day.

"There is a lot of trust in the market for SmartStream, which has been around for a long time," Dehaan explains. "The user interface was designed by part of the team that won a Red Dot Design Award this year."

"We can always make things faster and more efficient," he adds. "It is all about how quickly you can get data from a source system into your system without any breaks, and we connect all the pipes. The ability to have true real-time information reduces a lot of strain. The more data we can get, the happier we are. Consuming data doesn't scare us."

Dehaan knows well the pressures of investing in cash and liquidity management systems, and the barriers that prevent banks from pressing the Go button on a new project. But he firmly believes that with interest rates on the up – now is the time to act. ●