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Resiliency in financial operations after COVID-19

Bank operations and technology executives discuss how the pandemic has transformed the industry.

The COVID-19 pandemic has forced financial institutions to react with a speed that amazed everybody – including the banks, brokers and asset managers that had to suddenly reconfigure their entire setup, worldwide, to ensure the safety of their employees and clients, while still managing business and processing record-high volumes.

"Goldman Sachs has had 95% to 98% of its workforce globally working from home," said Larissa Dudley, the firm's COO of engineering for Asia Pacific. "It would have been mind-blowing if you had told me that in January."

Technology has been intrinsic to modern finance, but tech programs and budgets have not always been regarded as top priorities by many financial institutions.

This is likely to change if firms are to continue to drive efficiencies, create new revenue opportunities, and ensure the resilience of their operating models.

Operations and technology executives at financial institutions don't see a conflict between achieving these goals.

"I see resiliency and efficiency as one plus one equals three," said Stacey Lacy, head of operations and technology for Citi's Asian private bank. "We have to operate efficiently with resilience in order to serve our clients."

It will mean greater adoption of artificial intelligence and other digital tools to support firms, processes, and volumes, according to executives speaking at a recent webinar hosted jointly by SmartStream Technologies, the Asian Securities Industry and Financial Markets Association, and *DigFin*.

Alan Jones, SmartStream's business solutions director for Asia Pacific, says the pandemic has accelerated many digital-transformation projects, particularly in the middle and back office. "Firms are striving to automate processes that have been traditionally manual and paper-based," he said.

The ability for large firms to move so quickly in response to the crisis follows years of investment in data standards, which build the foundation for automation and the adoption of machine learning and other tools of artificial intelligence.

"Firms are benefiting from AI & machine learning techniques to achieve enhanced levels of straight-through processing in complex operational areas," Jones said.

Alan Jones, Business Solutions Director Apac, SmartStream

These advances have also strengthened market resiliency to a degree that was only revealed in March and April, when capital markets faced record volumes and volatility – and continued to function.

“I saw an improvement in resiliency,” said Olivier Dang, chief operating officer of Nomura’s wholesale digital office. “A key learning from COVID-19 was not just handling increasing volumes across all business lines, but also how it is making capital markets even more electronic. This trend will continue, which means firms will need more data processing, more analytics, and more tools to help us react quickly to changing market conditions.”

The immediate question that ops and tech specialists are dealing with is remote working and collaboration.

“Most firms had tested working from home on the odd occasion, but not on a permanent basis for the majority of their workers,” said Dudley. “Our CTO recently said our firm, especially our engineering division, had come to resemble a logistics company.”

She saw her role transform into a project manager, coordinating what people needed, how to ensure trading, and support revenue-generating teams so they could continue to execute business. “It’s been intense, but we’ve been nimble,” she said.

The big questions now are: first, do firms return to old ways of doing business? Second, what will be the next big demands on technology?

The answer to the first question depends on how long the pandemic will continue. The longer society must practice social distancing, the more that interactions will be digital. That changes the nature of meetings.

“We’re connecting virtually through smaller groups or webinars,” said Lacy. “People have limited attention spans so we’re keeping these interactions short, as opposed to spending a few hours sitting in a hotel ballroom.”

At the same time, clients have so many questions right now that demand to engage with financial service providers has skyrocketed. “Client interaction has intensified because they are thinking about what to do next,” Lacy said.

What will firms need to continue this way?

“Data analytics and A.I. are becoming ‘hygiene’,” said Dang. “It’s going to be hard to maintain market share and service client demands if you don’t have the tools for an electronic business.”

This applies to all sides of a business. The front office needs cutting-edge A.I. for generating prices and offers, and to use technology to create new business niches.

For middle and back offices, A.I. is now crucial to mitigating risks and streamlining operations, even in areas previously impervious to automation.

One of the hottest areas for tech now is reconciliations. “We’ve seen success stories with firms adopting A.I. within that process,” said Jones. “This is an area that involves big data sets: transaction data, business data, nostro account data. It’s not about just throwing A.I. at processes, but looking at the quality of those data sets, understanding the information flowing through processes, and seeing where A.I. can bring benefits.”

For example, machine learning can be used to enrich client data so that it can be read by machines, which can then identify patterns faster than any human could. “This reduces the time it takes to resolve exceptions and prevents the need for manual intervention,” Jones said. “There are many areas now where data can be enriched and correlated, through both supervised and unsupervised machine learning.”

Digitalization of these complex processes feeds directly into a firm’s overall business.

“Clients want our digital platforms have execution capability,” said Lacy. “It has to be straight-through when we receive trading orders. There is now a huge demand to things faster.”

This has led to a quiet revolution in banks’ responsiveness. Traditionally, big firms were criticized for slow, waterfall-style technology builds. A front office might request a new feature, and have to wait months and months.

"But with everyone working from home, overnight we had to take paper away," Lacy said, "and replace that through process reengineering or automation." For Citi's private bank this has begun with order execution, but Lacy expects digitalization to move more deeply throughout the organization. "If work-from-home continues, we'll see more automation for more complex products."

The degree of automation will depend on COVID-19's durability. If client engagement, sales and roadshows must remain mostly virtual, then the shift to digital tools will be permanent. The longer the pandemic rages, forcing lockdowns and preventing travel, the less likely the industry will snap back to old-fashioned ways of operating.

It's possible, of course, that once society gets past the worst of COVID-19, it will only take on bank to resume face-to-face meetings for the others to follow. "Ultimately we will deliver what the clients demand," said Dudley.

One change that does seem permanent, however, is banks' working with partners, be it business process outsourcing or teaming up with fintechs. Banks traditionally have built systems entirely in-house, but executives say this has changed – and COVID-19 has sped up this shift in mindset.

"Working remotely requires additional controls, checks and balances," said Jones. "Some operational processes can be outsourced. Firms are looking how they've managed through the pandemic, and what efficiency will look like on the other side."

To some extent, outsourcing or partnering will be a response to the huge compliance, auditing and reporting requirements imposed on the banking industry following the 2008 financial crisis.

Banks were in much better shape as a result of those added controls, which are one reason why the industry withstood the shocks of 2020. But firms were already feeling the cost and pressures of stepped-up monitoring, scrutiny of system stability, and efficiency.

"We placed more scrutiny on new code releases in operations, and we had more senior managers putting eyes on where the exceptions are, the breaks," Dudley said.

This allowed banks to deal with additional risks, but there are opportunities to use technology to streamline these processes, whether it's proprietary, onboarding a tech partner, or outsourcing to a platform.

This is blurring the lines between infrastructure to ensure resiliency, automation to win efficiency gains, and next-generation technology to grow revenues.

"The new competitive advantage is managing your internal and external data estates, in order to generate alpha against competitors that haven't invested as much," said Dang. "As markets go more electronic, our margins will continue to be compressed. Therefore, we need to emphasize efficiency, revenue capture, and cost control. But we must remain agile in how we manage data and generating revenue from it."

That's good news for banks' clients. With digital delivery, they will have real-time and more comprehensive information to help them make investment, trading or corporate decisions. "Acceleration of digital transformation will help our clients across the spectrum," said Lacy.