Banks and financial institutions in the region have witnessed challenges in post-trade processing amidst the rapid developments in digital transactions. As such, many of them have resorted to automation in the hopes of easing up trade processes. However, the cost and degree of automation have proven to be a hurdle in its development.

According to SmartStream’s Strategic Product Manager, Roland Brandli, banks have spent millions of dollars in automating their trade process, but in buy-side institutions, that amount is too high a threshold to spend money on. “However, what is common is that even if they do have automation, it tends to focus within their internal systems,” he said. Despite the risks, there have been many drivers of automation in post-trade processing, especially in the Asia-Pacific region as they “tend to be heavy users of electronic instruments.”

Brandli described the expectation of Asian customers into doing things online as “much greater than anywhere else.” “Whilst Asia still has a very complex regulatory background because of all the different countries involved, we will see that regulatory bodies will also insist that institutions involved in trading settle much earlier, and institutions that fail to settle on time will potentially be faced with hefty penalties,” he added.

Redirecting costs amidst automation
Whilst a huge cost is involved in automating trade processing, Brandli noted that a lot of it is incurred just by executing a process, which is unsustainable in the long run as volume increases. “The entire idea of bringing in automation and straight-through processing is actually to eliminate that cost, and also to redirect any cost incurred to be focused purely on wherever is risk, where exceptions occur,” he said. Brandli also described middle and back offices to be very fragmented, which is why consolidating them would be beneficial in easing the trade process.

There are also challenges in adapting automation worth considering, such as un-standardised data formats, multiple trading systems, payment systems, and portfolio management systems.

Brandli noted that despite having a certain amount of automation, there still might be some discrepancies as to what the counterparty has agreed upon. In other cases, settlement and payment instructions go out automatically, which can force financial institutions to recall, cancel, or amend them. This is where SmartStream has focused on.

SmartStream enforces global messaging standards as a default due to global presence, but it also easily adapts to local messaging standards. On the other hand, it ensures first that everything is correct before moving into another stage of the post-trade process.

The company also automates exception management, which gives a completely different aspect to the process. SmartStream notifies the user for problems with the process, so the user can address it quickly.

“By implementing trade process control, companies have an overview of how these trades are running and where the exceptions are occurring, but with minimal intervention,” Brandli said. By bringing these features into conjunction with each other, SmartStream can enable a user to potentially follow a trade lifecycle from the beginning to the end.

Future for automation adaptation
Despite asset markets being resilient amidst the pandemic, a lot of automation systems were never designed to work from home and there has to be a huge undertaking to get data systems updated and secured. SmartStream has managed to be resilient despite these changes, having implemented a work-from-home setup since early 2020.

“Because we had the foresight to set up our processes in a very specific way, we didn’t really have to worry about the way we work as a company or our infrastructure,” he said.

SmartStream continues to innovate technologies for their solutions through utilising the latest AI and machine learning technologies with its cloud native reconciliation platform, SmartStream Air, and the innovation labs to work on other forms of AI and blockchain to embed in their solutions.

“That should give our customers much more flexibility and allow them to use the benefits much better and to create seamless processes,” he added.

SmartStream’s solutions enable a user to potentially follow a trade lifecycle from the beginning to end.