

A smart eye on expenses

Brokerage, clearing and execution expenses can carve deeply into a bank's profits but they can be difficult to consolidate, monitor and manage. SmartStream has changed that with its Fees and Expense Management solution, and the manager of that business line, **Bharat Malesha**, explains how that is an increasingly important element in the company's product suite and, in particular, its managed services offering.

As a bank, doing business incurs many costs, but some have typically been harder to consolidate and manage than others. The financial services industry incurs a multibillion-dollar global spend on variable expenses, but transaction fees – constituting brokerage clearing and execution (BC&E) costs – have often flown under the radar, leading to banks missing the opportunity to measure and optimise their spend.

Now, however, there is no reason for those costs to be managed in any way that falls short of optimal. Through the Fees and Expense Management solution from SmartStream, many leading banks have shone a light on their BC&E costs, enabling them to realise considerable savings through effective cost management strategies, and vastly improved accounting and invoice control.

“Our core focus is on providing the ability to maintain client profitability, and increasing both transparency and operational efficiency,” says Malesha. “The transparency we provide across all custody and clearing processes in which a business is engaged enables us to identify the optimal solutions, which is only possible when you have complete and accurate data to analyse a bank's spending.”

SmartStream's TLM Fees and Expense Management solution can drive savings to the bottom line and enhance profitability through the strategic management of variable expenses, thanks to the implementation of end-to-end automated processes to accurately assess costs across high volumes of transactional information.

The result is near real-time reporting on daily volumes and expense levels to allow trading desks to, for example, maximise the impact of existing fee caps and volume tier discounts. Furthermore, the solution delivers transparent and granular data to regulators when orders are executed. For cost management and compliance, it is a major leap forward.

“In part through automation, in part through the transparency we deliver on BC&E costs, we can deliver a 2–3% saving annually,” says Malesha. “If a bank is spending \$100m each year on those costs, that could add up to a saving of \$15m over five years. BC&E costs could, in some instances, be the second-biggest cost item for a bank, so they make a big dent in the P&L calculation.”

A member of the managed services family

The need to explore every avenue to maintain or increase profitability has become more acute in recent years. Regulators now have a keener eye on how fees are constituted and banks have to meet increasingly stringent capital requirements. Add to that thinner margins on transactions and an increasingly competitive market, and there is a clear opportunity for third parties such as SmartStream to help banks optimise their execution processes and identify the potential for expense efficiency and cost control.

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The ability for banks to achieve this internally is hampered to a large degree. They are often weighed down by incomplete manual processes, which result in inconsistencies and delays in the gathering of

data on expenses. SmartStream's ability to implement end-to-end and automated processes delivers timely, accurate data that can be used to verify fee calculations, improve accounting precision and substantiate invoicing based on a constantly updated repository of rate information.

The company's suite of processes includes not only that centralised repository to capture, control and support the maintenance of all fee structures, transactions and reference data, but also a highly scalable calculation engine to independently compute any complexity in variable expenses, a process for the capture, generation and verification of invoices, as well as an expense line control sub-ledger system to manage accounting for high-volume, high-value expenses, and much more.

Since joining SmartStream in 2014 as solution manager for the TLM Fees and Expense Management business, Malesha has seen the technology underpinning the solution steadily improve to provide data analytics on a T+1 basis, largely through the automation and standardisation of manual processes. That standardisation has improved banks' ability to audit and control payments and, consequently, make data-driven decisions about BC&E costs.

At the same time, he has seen Fees and Expense Management become a key pillar of SmartStream's managed services portfolio.

"There has been a real shift in the market and our customers are now looking for a fully managed services model rather than implementing the software themselves," remarks Malesha. "That shift began around five years ago, and now more than 80% of our business is through our managed services. In the future, that figure will continue to grow."

"The constant technology innovation for financial institutions runs right through our managed services offering."

The managed services option enables clients to access the solution as a cloud-hosted service, alongside SmartStream's other market-leading products. Clients can access the company's cash and liquidity management and reconciliations software, its post-trade processing capability, its reference data utility and much more without having to install and manage any of the technology infrastructure. Furthermore, they can scale up or adapt their suite of solutions as their needs change.

"The drive towards managed services has come partly through an overall improvement of the

technology infrastructure in recent years, not least the security of cloud-hosting infrastructure like Microsoft Azure and Amazon Web Services," Malesha notes. "There are more stringent security protocols in place for our customers and there is higher availability and resiliency of systems."

"In addition, no other competitor is able to do the work themselves," he continues. "Vendors like us have a very niche approach to processes and we have institutionalised that knowledge within a specialist team. The result is standardised processes and a high-degree of resiliency and competency. We use best-in-class technology, and we have the people and processes to add real value."

Turning data analysis over to a specialist team using a reliable, scalable and secure technology platform is a way for banks to mitigate a significant amount of operational risk, as well as managing costs.

"Within a bank, the necessary knowledge resides within a small number of people, so when they move on there is a window of risk while the bank trains up more people to take over those responsibilities," notes Malesha. "Fees and expense management is our bread and butter. We live it on a daily basis, and we understand the opportunities for efficiency. We have true know-how and we also have in-depth knowledge of our customers' business."

In the often fragmented processes for billing and invoice processing, banks can accumulate significant but frequently unquantified costs. The Fees and Expense Management solution provides an integrated and simplified technology platform to reduce those operating costs. Through managed services, that platform becomes easily accessible.

Not only do clients benefit from seamless and secure access to the scalable and resilient cloud-based solution, but they also benefit from the constant refinements that SmartStream makes to its whole suite of solutions.

A cycle of continuous development

Many of SmartStream's extensive suite of solutions, all of which have been or are being integrated into the managed services portfolio, have become the leading tools in their specific fields. For example, AIR – the company's data reconciliation tool powered by artificial intelligence (AI) – has redefined the speed at which banks expect reconciliation and exceptions management to be performed.

"In fees and expense management, too, we are the market leader," says Malesha. "The depth and breadth of coverage across asset classes, variable and fixed fees and business functions, as well as our fully integrated invoice accounting process for payables and receivables, is unmatched. No one has as broad a range of services."



Innovation is the backbone of the company and runs through all of its product offerings. Fees and Expense Management is no exception, and Malesha's team is constantly developing the solutions capability.

"We are seeing new customers come on board and we are also going into new categories for existing customers to give them the single view that they need of all their expenses and fees," says Malesha. "The transparency we provide in custody and clearing processes is unrivalled."

"We can, for example, look at all clearing costs across a business and with all of the clearinghouses a client works with, and we can analyse how they are transacting with them," he adds. "We can see if there are optimal solutions, such as whether subscribing to a membership of a specific plan might deliver savings, or whether a bank has opportunities for self-clearing. Those decisions become clear when you can see the key drivers of those costs."

The further development of the solution will be based firmly on the feedback that Malesha and his team get from their key clients, among them many tier one banks. Working closely with customers to drive innovation is a fundamental part of SmartStream's culture, and that collaborative approach runs through every aspect of its business.

"Our bank partners are our clients, and we are supporting their customers through a focus on clearing costs and custody, providing more transparency on those costs and implementing commission-sharing agreements," Malesha explains.

"Our solution is becoming more and more integrated with the market infrastructure."

"That process is always ongoing," he adds. "We have to be constantly profiling institutions and their cost base as the market changes. Their transaction volume profile changes year to year or month to month, so you cannot simply apply the old model and hope it works."

As more and more clients choose to access the fees and expense management capability as part of a managed services engagement with SmartStream, the company has an opportunity to become an even closer partner to financial institutions by providing a one-stop shop for invoice and expense control.

"The constant technology innovation for financial institutions runs right through our managed services offering," says Malesha. "For fees and expense management, this means bringing more standardisation across the industry and enabling automation through a single platform."

"Our goal is to act as a true utility for our clients, and that will happen in the next three-to-five years," he adds. "Fees will increasingly become an integral part of electronically settled payments, so better controls in the accounting process – as well as more efficiency – will become even more important. At SmartStream, we are always looking out for the next problem our customers will face and working to solve it." ●