

# Embracing change: Building for the future

SmartStream prides itself on getting ahead of its customers' challenges and looking further ahead than most financial technology developers to see what is coming over the horizon. Jim Banks talks to its executive team about the big trends that are shaping the future of the banking industry – and how some of the company's products are helping clients meet these new challenges head on.

**M**any of the themes in banking apply to every other industry. The need to do more with less, to get key processes to function more quickly and cost-effectively, to build sufficient agility, to respond to changes in the competitive landscape – all of these apply to most businesses. Yet, to evolve and to survive, banks must look beyond these universal imperatives.

“There is always a drive towards greater efficiency, how to leverage data and ensure that operations are quick and deliver results to our clients, and are not too costly,” says Haytham Kaddoura, SmartStream's CEO. “The industry wants bigger data lakes, better reporting tools and the ability to use predictive analytics to allow organisations to assess different risks and the implications of, say, a payment that does not arrive on time.

“We have to build value and to understand the implications of new technologies for our clients,” he continues. “We are helping organisations to be as agile as they can be. That is our mission.”

Having already started down the road of digital transformation, the banking industry has been forced to quicken its pace. This is partly due to the emergence of new challengers, but is also a result of the Covid-19 pandemic and its impact on customer expectations.

“We are at the beginning of a new era and the pandemic has accelerated that change,” says Roland Brandli, strategic product manager for SmartStream's digital payments suite TLM Aurora. “There has been a complete change in [the] customer mindset. They want the same experience with their bank as they get using Amazon or Facebook.”

Brandli draws a parallel with similar changes in the music industry, when songs became downloadable. To a large extent, the distribution of music was no longer under the control of the big music companies – which resulted in them having far less dominance in the industry as a whole.

“Fintechs have jumped into the banking world because they understand the customer's needs,” Brandli explains. “They use banks as the backbone but look at what the customer wants, so banks will become prehistoric or be relegated to the background and margins will get smaller unless they can compete more effectively. Competing B2B means you need to be more efficient.

“Only streamlined banks will do well, so they must achieve that or it will be their demise,” he adds. “Some are too slow and too comfortable.”

## Rewrite the rules

Reinventing a business model in the banking industry is not only a technological challenge – it's a regulatory one too. The rules are constantly changing and regulatory compliance can never be an area for compromise. Fortunately, the transition to a new technology backbone can put compliance centre stage and make banks more agile in the face of future changes to the rules.

“We are looking a lot at the regulatory space, where requirements are growing more every day for banks and for any company,” suggests Andreas Burner, SmartStream's chief innovation officer. “Regulators want more and more data from more and more workflows, so it is getting tougher to meet those requirements.”

One example of the changes for which the industry is gearing up is the third phase of the Central Securities Depositories Regulation (CSDR), which is due to come into force in the EU in February 2022.

It will introduce new measures for the authorisation and supervision of EU Central Security Depositories (CSDs) and works towards creating a common set of prudential, organisational, and conduct of business standards at a European level. Introducing a securities settlement discipline regime will harmonise operational aspects of securities settlement.

For SmartStream, AI and ML will be crucial in adapting to such changes, as they allow every process to be automated. That automation is vital because it will assist financial institutions in making quicker and better-informed decisions.

“Regulation is still a strong theme and one of the biggest things the industry has to deal with,” agrees Nick Smith, executive vice-president of SmartStream’s Managed Services. “We see that when we go live with new clients because the regulatory regime in the UK and globally is changing. Everything banks do is related to the regulatory environment because they are required to provide a whole new level of detail.

“That’s where we play,” Smith continues. “We ensure that all of the operational controls and transparency are there for banks to manage their engagement with regulators.”

### Agility not on-premise

The automation that AI and ML offer requires a whole lot of computing power, which would be cumbersome and expensive for banks to. That adds to the ongoing push for cloud-based solutions, which SmartStream has been developing since the concept first arose.

“We see that going to the cloud is still a growing issue,” says Burner. “One year ago, only some banks were looking to move everything off-premise, but now it is the majority that want software in the cloud. That is interesting for us because we have almost every product as a cloud offering, so we fit into that requirement well. It is a big trend and we anticipated that. We had a cloud-first strategy.”

Brandli agrees that banks that have multiple and complex systems in their technology stack will have to look at the cloud from a more industrial perspective, thinking of automation as well as scale, agility and cost-effectiveness.

“Our operation and control level enables just-in-time services,” he explains. “We can do reconciliations and automatically pass them on to be corrected, so that banks can watch that going through the production line. That mentality is different – it is a virtual product but you need to make sure the transaction is of sufficient quality as it goes through the various stages. The systems are there to allow banks to make that change.”

Fortunately, many banks are in a position now to make the necessary investment in cloud migration, as Peter Dehaan, new SmartStream’s business director for cash and liquidity management explains.

“In the last two years, banks have been able to substantially increase their revenue, even though there have been costs from the pandemic,” Dehaan says. “The question is how to reinvest those gains to benefit their treasury and their operations people across the organisation, as well as aligning with the

risk and compliance people. Do they buy or upgrade systems? Do they want to build it themselves? Do they have the know-how?

“Instead of upgrading an antiquated system, the other option is to buy something new,” Dehaan adds. “We are looking to partner with them and complement the processes they have in place.”

### The inevitability of change

The pandemic has undeniably forced banks to rethink many aspects of their business model, but it has largely accelerated a process that was already under way.

“The market is changing a lot and the pandemic has had a great impact on attitudes and people,” says Peter Morris, managing director global utilities, who is heavily involved in the marketing of SmartStream’s fees and expense management solution. “One big change has come in employees’ view of what their work/life balance is. People are working from home more and there needs to be a replacement for their experience within a bank, as well as a need to ensure their productivity.

“The answer to experience is AI,” Morris argues. “You can automate experience and learn from the decisions people make in certain situations. A machine can learn that and know how to fix some problems with ML. Automation is how you address the productivity problem, give people a better work/life balance and give them better information on which to base business decisions.”

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### Haytham Kaddoura, SmartStream

Just like its banking clients, SmartStream also has to adapt to change in recognition of competitors jumping on the bandwagon of digital transformation and cloud services.

At a challenging time for banks and financial technology providers alike, SmartStream is benefitting from both its pedigree and its willingness to take the long view. This is what gives its CEO great confidence that it will be able to continue to adapt and thrive.

“The way forward is so exciting and diverse, it feels like walking into a theme park,” Kaddoura says. “There are so many paths to take. The financial services industry has tended to be quite conservative, but now there is a big change in mindset. People must follow that change.” ●