

Negotiating the Rapids

Haytham Kaddoura, CEO of SmartStream Technologies Group, reflects on unprecedented changes confronting the financial services industry and why technology will be key to managing this transition

The financial services industry faces a period of unprecedented change and standard tried-and-tested responses are unlikely to be adequate to manage this transformation.

The causal factors have been widely discussed by industry analysts, including governmental responses to COVID-19, the rise of ESG factors in shaping investment strategy, the impact of new financial regulations and, most recently, the imminent threat of economic recession.

The industry's response to COVID-19 underlined the attraction of working at home (at least for some) and spending time with kin — time that would normally have been spent commuting to and from the office. This has created a new set of new social dynamics and organisational angst, as people who have become accustomed to working from home indicate a preference for continuing to work remotely. Other side effects include a shortage of employee numbers and employee skills as career options have come under serious review.

Meanwhile, ESG has moved from being a liberal fringe consideration to a mainstream agenda as it now attains a quasi-religious status. Markets everywhere have experienced torrents of regulation and re-regulation, affecting not just established players but the growing number of so-called, 'challenger' and 'neo' banks.

Some of the newer institutions are inevitably beginning to succumb to the same temptations that led their predecessors astray, including excessively rapid growth, inadequate capitalisation, and the misallocation of the capital appearing on their balance sheets.

At SmartStream, we know from past experience that the effort required to implement the required changes is nothing less than gigantic. This will affect every element of every financial services organisation, impacting their organisational, technology and operational agendas.

So much for the gloom. Are there identifiable answers? We believe the answer is yes — and, of course, technology will play a foundational role. Artificial intelligence (AI), for instance, is increasingly demonstrating its value to financial services, not least in enabling senior management to focus on strategic issues and concerns. For example, we have technologies that learn user behaviour, or ‘observational learning’.

For example, SmartStream Air’s artificial intelligence for exceptions management will populate fields automatically, set labels, and run automations — all based on the processes it has learned. In addition, it will be able to provide suggestions to the user or fully automate the process — alleviating the user from cumbersome and work-heavy exceptions management process — and when the model is trained, the AI will be able to make predictions.

We look forward to working closely with clients — present and future — to identify and provide the assistance they will require when negotiating the rapids of change, drawing always on a growing bank of experience and knowledge.

In the same way that a picture can paint a thousand words, our track record demonstrates the practical help we can deliver to clients across the entire sector. A leading global hedge fund, for instance, needed help to solve its reference data problems — specifically the risk associated with missing exchange notifications for listed derivatives. The fund has more than US\$35 billion in assets under management and trades products that include equities, equity options and futures for both retail and institutional clients. Its internal risk and compliance team flagged potential risks in its exchange notification monitoring and processing.

The existing processes were not centralised. Different teams were using different datasets and needed to stitch the various notices together in order to see the complete reference data impact. There was a danger that corporate action events could be missed and the threat of notifications being postponed or cancelled closer monitoring. The processes the hedge fund had in place did not align with the industry’s aggressive goals of onboarding more derivatives exchanges in the short-term — creating danger of a rise in operational risk.

For every notification that was missed or processed incorrectly, there was a risk of serious financial and reputational consequences for the fund and its clients. SmartStream reference data utility exchange notification service (ENS) offered a complete solution, providing a normalised view of exchange notifications related to the management of listed derivatives reference data and sourced from more than 100 exchanges.

A large team of SmartStream's in-house experts, generally with a strong background in working with execution venues, carefully monitors notifications and corporate actions to pick out any points that might have an impact on reference data relating to listed derivatives. Once gathered, data is cleansed, normalised and cross-referenced.

If a bank requires a dependable intraday liquidity management solution to extend the scope of its existing real-time cash management system, and its in-house system no longer meets the rapidly changing demands needed to comply with its regulatory reporting obligations, SmartStream's TLM Cash and Liquidity Management service can provide an end-to-end solution that consolidates fragmented and siloed business infrastructures to deliver a consistent operating model.

It captures transactions from any internal and external source to create a single, global view of balances across all currencies and accounts. This ensures a high degree of accuracy, facilitating informed decision-making and enabling intraday liquidity reporting requirements to be met effectively. Industry participants may find it difficult to meet the challenges we all face. However, we will carry on with our essential work, helping developed markets to catch up with progress made by emerging rivals.

In times ahead, we expect to witness the wider application of cloud-first strategies and further outsourcing of non-strategic services. As financial institutions seek to reinvent themselves, some will prove to be more courageous, and better able to manage this change agenda, than others.