

# Optimising cost and efficiencies with market-facing expenses and fees

High market-facing fees such as brokerage, clearing and execution expenses can have significant impact on a bank's profitability, so all fees and expenses must come under the microscope. With its Fees and Expense Management (FEMS) solution, **SmartStream** enables easy tracking and control of these costs, so *Future Banking* asked its FEMS solution manager Bharat Malesha how this is done.

**A**s with any business, running a bank comes with a long list of costs – some obvious, others more opaque. All, however, carve into profit margins, so it is essential to bring every cost into the light to ensure that it is understood, monitored and, ultimately, managed effectively.

Every year, the financial services industry spends billions of dollars on variable expenses, and transaction fees constitute a significant proportion of them. Nevertheless, these brokerage clearing and execution (BC&E) costs are often not fully recognised as an area where efficiency can be improved and savings made.

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“We manage execution costs and market-facing fees, and at any point in time it is important for a bank to understand its cost base, have transparency and have true integration of those costs into its books and records,” says Bharat Malesha, executive vice president, fees and expense management at SmartStream. “Those costs must be tied back to the right businesses, so that our customers can manage their operations more efficiently and maximise client profitability.”

“Once they have that transparency, they can see whether they are optimally executing in the market,” Malesha

Bharat Malesha,  
FEMS solution manager,  
SmartStream



continues. “They can see the options that are available to them. The problem is that processes are so fragmented in the banking industry that the right information is not readily available. Normally it is collated at the end of month or two months after the fact, and the data is stale by then. So, there is an urgency around fees and expenses,

and it is important to get information in near real time.”

## **Transformation begins with transparency**

Banks are undoubtedly missing the opportunity to measure and optimise their spend, as their ability to recognise and achieve savings potential is restricted by the completeness and accuracy of the information it uses to substantiate spend analysis. Now, however, there is a path towards transparency that can help financial services organisations to manage previously hidden costs in an optimal way.

SmartStream's Fees and Expense Management (FEMS) solution has already helped many leading banks to reveal the true extent of their BC&E costs, and find a way to realise considerable savings through effective cost management strategies. Along the way, that vastly improves accounting and invoice control to drive savings to the bottom line – and ultimately enhance profitability.

The FEMS platform and SmartStream's range of related services provide banks with a best-in-class solution for expense and revenue efficiency, relying on near real-time reporting on daily volumes and expense levels, which allows desks to maximise the impact of existing fee caps and volume tier discounts.

Furthermore, the solution provides transparent and granular-level data to regulators when orders are executed, ensuring a bank adheres to best execution practices. A multi-dimensional, division-level expense view delivers cost transparency across fee categories, enabling business and client profitability measurement.

“Usually, our competitors focus on a particular asset class, but we can deliver an enterprise-wide view of BC&E costs,” Malesha says. “That is what sets us apart. If a bank is using a vendor or third-party service provider, including brokers, exchanges, clearing houses, agent banks or custodians, and needs to understand its total spend with a provider – whether for equities, fixed income or any other asset class – we can bring the whole spend base together.”

“We can also look across all service providers that are being used globally and drill down into far more detail,” he adds. “That way, our clients can have a data-driven conversation with external providers.”

Primarily, the FEMS platform can help banks to cut costs, with annual savings of 2-3% easily within reach, depending on the specifics of each client’s operations. That may not sound like much, but if a bank is spending \$100m each year on those costs, that could add up to a saving of \$15m over five years – hardly an insignificant sum. In fact, BC&E costs could, in some instances, be a bank’s second-biggest cost item, so any saving could make a big difference to the P&L calculation.

“The level of savings depends on a bank’s operations and varies on a case-to-case basis, so while some customers achieve 2-3% savings, others might reach 5-7%,” Malesha emphasises. “Whatever a customer’s operations, we can help to identify the opportunity and help to execute those savings.”

*“Our core drivers are transparency, efficiency and the optimisation of business costs, but banks need to understand first of all that they need help with that.”*

“Today, it is very important for CEOs and CFOs to drive this kind of messaging,” he adds. “They are asking questions about whether they are pricing their business right and whether they can measure their profitability accurately. They want to be in a position to compare real performance against forecasts.”

Optimising market-facing fees is a powerful tool in driving efficiency, and the ability to monitor and track fees as they change is a way to ensure that banks have a clearer view of whether their performance is driven by market conditions or by other factors.

“It gives banks options to optimise their cost management and, ultimately, their performance,” Malesha notes. “Banks are constantly challenged with higher regulatory fees, increased capital requirements, and constant pressure on ROI. As a result, they need to monitor

internal and external trade costs, including technology functions and data consumed from external vendors.”

That is where we can help customers with the key inputs they need to develop optimal strategies for the business they engage in.”

### **Staying in step with a changing market**

For SmartStream and its customers, the ongoing challenge is to keep pace with the changes happening in the market. Fees do not remain constant, so clients need a solution that keeps the picture of BC&E costs up to date.

“We are constantly refining our solution,” says Malesha. “We are building on revenue management on commissions, but we are offering cost-plus services and commission-sharing agreements to help clients take advantage of what we can offer. We are also supporting SEC Rule 606 reporting, which requires all brokerage firms to make publicly available quarterly reports, broken down by calendar month.”

“We can create cost information at execution level to support that reporting,” he adds. “We are also looking at financial transaction taxes in Europe, with which some countries, including France and Italy, have gone live. There is a lot of progress on managing the whole billing and collection processes, so we can look at costs and revenue with the same lens.”

In terms of developing the solution itself, SmartStream’s focus on the appropriate use of artificial intelligence (AI) and machine learning (ML) will inevitably be part of the innovation process. The company’s core solutions, including its market-leading reconciliation system SmartStream AIR, rely heavily on AI to gather and gain insight from large data sets.

“We are always looking at ways to incorporate more automation to deliver operational efficiency through AI

and ML tools,” notes Malesha. “We are incorporating AI into operational processes such as payments and the validation of invoices to gain efficiency and improve controls around those processes. It requires capturing information from hundreds of documents, and using AI to collect and analyse the data is something we understand from the success of other AI-enabled solutions.”

“What we offer is spend base visibility, and we have developed third-party visualisation tools to measure the performance of a business and present that information through a range of dashboards,” he adds. “We have a rich set of information, but must also make it easy to consume that data. We allow our clients to slice and dice the data in their own way, making it more of a self-service functionality. We encapsulate that data for their needs and customise it, and that is the major drive of expansion in our FEMS business.”

Innovation is the backbone of SmartStream’s market offering, but refining what FEMS is capable of delivering is only half of the story. It is not enough to have a platform and a service offering that can deliver major benefits to the bottom line if the right people in the banking sector are not aware of the opportunity to get tighter control of their BC&E costs.

“It is all about who it reaches,” says Malesha. “The message has to be hitting the right stakeholders in institutions: the CEO, the CFO, the regional heads of operations. Taking control of BC&E costs is not a change that is demanded by regulatory bodies. It is a discretionary spend, so we have to ensure that we reach out to those stakeholders and educate them.”

“The processes that we are talking about are often very fragmented within financial institutions” he adds. “Not every bank will have an expense management department, and many will not even be aware that there is a problem to solve. Our core drivers are transparency, efficiency and the optimisation of business costs, but banks need to understand first of all that they need help with that.” ●

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