Collateral management costs

Trevor Negus, senior product manager (TLM collateral) at SmartStream Technologies explores some of the options for reducing collateral management costs.

Inventory optimisation

Collateral is a scarce resource, so effectively managing a firm's inventory is fundamental. TLM collateral can publish in real time not only the collateral that is held and posted, but also the specific instruments that are eligible on specific agreements. This simplifies the process as the optimisation engine will already know where to use that collateral.

This streamlines and reduces the time taken to establish where best to use assets, avoiding shorts, and unnecessarily using expensive collateral.

APIs

Firms need to be able to communicate out their collateral positions and eligible instruments and consume back in the optimal allocations against those agreements.

It is important that is all done in real-time. Our APIs are all versioned, documented, authenticated, secure and stable and are backward compatible, which lowers overall cost of ownership. One of the biggest expenses for firms is that when they upgrade software, they have to rebuild all the connectivity between the systems and recompile all their APIs - because we have public APIs that are backwardly compatible, recompilation is not necessary.

Microservices

Breaking out system components into different microservices allows firms to take on new functionality without having to upgrade the whole system. This reduces the time and costs involved in system upgrades and thus lowers the total cost of the collateral programme.

Furthermore, firms can cherry pick the components of the application they wish to use. It may be that they have their own internally built CSA warehouse but require us to supply the margin call workflow.

This is made possible because they can connect our microservice components using our APIs to their own internal systems, allowing them to add new functionality much more quickly.

Microservices is something that banks are clearly embracing and we see this trend being replicated in the collateral world.

Hosting

Hosting in the cloud is becoming more and more important for firms, enabling them to concentrate on their core competencies while the software vendor supplies and supports the technology.

Historically, collateral management was seen as such a core function that it was deemed too risky to do it in the cloud and there will still be firms that want to deploy locally. However, many are moving to a cloud approach because it is more effective from an installation perspective - all the production support, BCP, auditing and archiving supplied by the software vendor can be mutualised because they are supporting multiple firms.

Firms can manage their processing power requirements more efficiently, scaling up when needed and scaling back when not. This can reduce costs considerably in comparison to an internal build, where hardware has be ordered and deployed. Our on-demand (hosted) deployment significantly reduces demand on internal IT resources, while our private cloud approach eliminates concerns around security, co-mingling of data, or performance bottlenecks. ■