

COMPANY NEWS

Firms only as strong as their weakest digital link

Financial institutions are putting renewed energy into transforming how they process trades and payments.

Radha Pillay, SmartStream

Financial institutions' leaders have pursued "digital transformation" for years, but the COVID-19 crisis has made stark what still needs to be done to ensure firms can support clients and win new business online.

Technology budgets have gone first to revenue-generating functions, whether it's a better trading algorithm or a customized offer to a consumer. Back and middle offices have generally fought over whatever budget was left.

"COVID-19 has in many cases highlighted that you're only as efficient as your least efficient process," said Radha Pillay, regional sales director for Asia Pacific at SmartStream Technologies.

Legacy core systems are decades-old among many firms and tend to involve a mishmash of independent, product-based systems that don't talk to one another.

It is not realistic, nor wise, for a bank, insurer or asset manager to abandon systems that are proven to work. But they are increasingly under strain as firms seek to move with the agility of their fintech competitors.

“Legacy systems don’t allow for complete straight-through processing of many types of transactions,” Pillay said. “This is where fintech startups have done well and can compete with traditional financial institutions.”

Firms are focusing more on making sure their processes can support the front office, especially to meet the huge surges in transaction volumes and client requests this year.

“We placed more scrutiny on new code releases in operations, and we had more senior managers putting eyes on where the exceptions are, the breaks,” said Larissa Dudley, COO of engineering for Asia Pacific at Goldman Sachs, speaking at a recent webinar hosted by SmartStream, *DigFin* and ASIFMA.

Pillay says solutions providers such as SmartStream are deploying the latest in artificial intelligence and automated workflows to help firms keep up with front-office digitization. “The work extends across reconciliations and exceptions management, corporate actions, collateral management, cash and liquidity solutions, and more,” Pillay said. “Firms know that they can’t leave these with a high number of manual touchpoints anymore.”

Olivier Dang, chief operating officer of Nomura’s wholesale digital office, said, “A key learning from COVID-19 was not just handling increasing volumes across all business lines, but also how it is making capital markets even more electronic. This trend will continue, which means firms will need more data processing, more analytics, and more tools to help us react quickly to changing market conditions.”

Pillay says technology has matured to now tackle the most complex aspects of workflows. Firms are repositories of vast quantities of data. Too often this has been isolated in different departments and systems. It is now possible to harness it so the data can be analyzed, new patterns can be discovered, and client solutions can be rolled out faster.

“SmartStream’s innovation lab applies artificial intelligence and machine learning within our solutions,” Pillay said. “A.I. is now ready for specific use cases. Firms don’t need to go through prolonged analysis of client activities. They can leverage our A.I. models on top of their decades’ worth of data to identify areas where they can notch quick wins in improving operational efficiencies while maintaining better risk controls.”

One of the hottest areas today is reconciliations. Making sure accounts add up requires interacting with many counterparties. Until now, solutions to bring all the information together have not been cost effective, and the tech hasn’t been good enough.

That's changed, however. "Our reconciliation suite for digital payments is seeing big volumes now, from banks, payments processors, and fintechs that are looking for greater straight-through processing and shorter resolution time for breaks or disputes," Pillay said.

Several trends will accelerate this. One is the growth of challenger or virtual banks, which are taking on incumbents with a flexible, cloud-based stack. They are users of solutions such as SmartStream's A.I. services, and also forcing the larger established incumbents to keep up.

Another trend is regulation. The European Union's updated Shareholder Rights Directive (SRD2) is forcing the industry globally to make corporate-actions processing seamless and closer to real-time.