

## POST-TRADE TAKES CENTRE STAGE IN DRIVE FOR OPERATIONAL EFFICIENCIES

After years of a lack of investment, banks are seizing the opportunity to bring in new post-trade technology to realise greater operational efficiencies.

It is no secret that since the financial crisis, banks have been under pressure. Falling revenues resulting from lower trading volumes and historically low interest rates have combined with increased internal and external costs.

At the same time, sweeping regulatory reforms have required firms to invest in new technology and bring greater automation and transparency to their operations.

Historically the front office has been the principal beneficiary of technology investment as markets have increased in sophistication and speed. Today it is the middle and back office where firms are having to invest to comply and gain an edge on their rivals.

Clients are also under pressure from reforms and the drive for efficiency in their operations. In today's market they require more granular, transparent data from their service providers in real time, a significant change from the previous next day settlement statements of yesteryear.

But for banks that have not invested in their post-trade operations, meeting the client demand in a cost effective and efficient way is proving challenging.

"Derivatives clearing and settlement platforms have been lagging behind in terms of technologies used and keeping up to the high demands of the regulators and clients," says Nachi Muthu, head of derivatives trading and clearing solutions, Broadridge.

"Banks need to either upgrade their middle and back office platforms to keep up or fundamentally reassess their derivatives business. Achieving this in a cost-effective way is the key."

A number of banks and brokers have chosen the latter course, pulling back from their derivatives businesses or exiting the market entirely. Those that remain in the market have the opportunity to grow but to do so need to adapt to the new normal.

Historically banks' capital markets businesses have evolved into separate silos running entirely different technology stacks.

Over the past five years some banks have launched initiatives to simplify operations across different divisions, breaking down the silos and realising efficiencies from merging technologies and reducing the number of providers.

Efficiency in the back office is key to achieving the full breakdown of the



**NACHI MUTHU, HEAD OF DERIVATIVES TRADING AND CLEARING SOLUTIONS, BROADRIDGE**

silos. Banks need a real-time, multi-asset solution combining both listed and OTC derivatives on the same platform.

They need automated clearing and settlement enabling the least amount of manual interaction in a system that is connected to external clients enabling them to see their trade and position updates in real time.

Investing in modern, real-time technology in the back office not only increases the efficiencies and enables banks to lower overheads and offer a better service to clients. It also reduces the cost of maintenance and the risks of errors and instances of exceptions.

"When banks adopt a modern multi-entity platform, they can achieve high quality while keeping their costs down," says Muthu.

But there are barriers to adoption that are slowing down investment. It is often an easier decision for executives to maintain the status quo rather than taking bold investment decisions, delaying the inevitable for another day.

There is no doubt that change is sometimes perceived as difficult but for those firms that do take the initiative, the decision very quickly delivers ROI in terms of a lower ongoing cost model via a more efficient and compliant offering.

"Changing the paradigm of software licensing to an SLA-based technology service model would ease the pain for the banks in dealing with this great change,"



**PAUL CLARK, HEAD OF INSTITUTIONAL STRATEGY AND PRODUCT MANAGEMENT, BROADRIDGE**

says Paul Clark, head of institutional strategy and product management at Broadridge.

"Choosing a partner who has great experience in providing a multi-entity, multi-asset platform would significantly reduce the risk of the change. Of course evaluating the quality of the underlying technologies used is a must."

In summary, the banking and FCM community must meet the ever-increasing need for on-demand services from both their clients and regulators by moving to sophisticated real-time platforms for derivatives clearing and settlement. Many of the current legacy platforms need to be upgraded and in many cases replaced by modern technology platforms. As the total cost of ownership for investing individually in such platforms could be prohibitive, banks have to look to market-proven service providers for efficient multi-asset solutions to mutualise these costs. The banks who adapt to the new normal will recognise a significant advantage over their peers in terms of operational costs, efficiency and client service.. ■

### About

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