

To maintain an edge

Over the last 10 years the rising volume of trade activity has become a major concern for banks, increasing pressure on their operating systems to cope with processing and settling the extra trades. As well as more volume, there has been a concurrent increase in trade complexity: relatively simple structures such as swaps and credit default swaps have been joined by highly sophisticated trades which require highly developed technical solutions to ensure they are processed and settled as quickly and efficiently as possible.

IT companies working in the financial services sector have worked with banks to devise solutions for the changing face of derivatives trading. Ironically, though, the increasing capabilities of IT networks and advances in telecoms have led to ever more complex trades. The emergence of cross-asset hybrid products presents a further IT challenge, with banks needing to redesign their portfolio tools to deal with these complex structured products. Also required is an efficient way to integrate large populations of market data, and in ever more regulated markets, to ensure compliance and clarity in all stages of the trading process.

SHIFTING THE BURDEN Given these changes, many mid-tier banks in particular are looking to outsource their treasury management system (TMS) to companies better placed to deal with changing needs and markets. The pressures on the internal resources of many mid-tier and smaller institutions can be prohibitive and hosting offers a degree of future-proofing in the face of growing demands on systems. Where an IT services company can provide all the functionality of an in-house system, it can make sense for banks to shift the burden of treasury management out the door.

The driver for banks looking to outsource management systems involves time, cost and planning. If a bank can partner with a company able to replicate the bank's own TMS, it may make sense to free up internal resources and share responsibility for trade processing.

The post-trade back-office process has been automated for longer than front-office functions. Those working in the front-end have been less eager to forsake manual interaction, so phone calls and faxes still prevail in many corporates. But technical developments in linking front- and back-office processes have led to aggregation of front- and back-office services, leading to an increasing use of IT to enable straight-through processing (STP).

HOSTED SYSTEM IMPACT It's on the bottom line where technology companies argue that the impact of a hosted system can most

Executive summary

- Banks invest in technology innovation to gain market advantage. Hosted treasury management systems may suit banks better than in-house software because they require no maintenance and the supplier provides the continual investment needed to keep such solutions at the leading edge.

clearly be felt. Constantly developing software for dealing with treasury management can prove a headache. 'Keeping up with the Joneses' in treasury systems has always been a core requirement for banks. But staffing, constant upgrades, new systems and software licences mean that costs mount.

This situation is felt most keenly by medium-sized and smaller banks that compete on back-office functionality with their larger rivals. Having a third party take on the responsibility for treasury software could let them spend time and resources elsewhere.

THE MARKET Today's TMS solutions can process trades at speeds and in volumes unthinkable only recently. Given corporate appetites to make their processes more efficient and the increasing trend for FX trading to provide liquidity, these volumes are unlikely to reduce.

SPECTRE OF COMPLIANCE The last few years have seen a major shift in how governments and political organisations view the banking and finance communities. Increasingly complex trading, the growth in share ownership and the boom in market volumes – with the subsequent impact on international economies and population wealth – have put trading and accountability on the political agenda.

As a result, the corporate treasurer has gone from a lonely figure in the corner of the finance department to a key compliance officer as well as the traditional strategy adviser, risk manager and FX trader. Not all corporates have developed their treasury systems in a way



LESLIE REGINO PUTS THE CASE FOR MID-TIER BANKS TO USE HOSTED TREASURY MANAGEMENT SYSTEMS.

that matches the needs of their treasurers; many use a disparate mixture of manual processes, bank-delivered services, in-house developed technology and third-party software. An increasing amount of attention is being devoted to creating a more coherent IT landscape, and there is a trend for on-demand services that bring disparate elements together in a practical way. For many, this means hosted systems.

REGULATION AND SAS70 Market regulation is driving companies to hosted systems. Demands for accountability and clarity in trades have put pressure on treasury systems to incorporate processes that will give a full picture to those involved in all facets of the trade. The banking community may greet this with trepidation, but that's where regulation is going.

An IT managed services company has to offer at least as robust a control process as a corporate's own internal standards. Satisfying the auditors is key for both client and vendor, and the easiest way to do this is to comply with the SAS70 *Service Organisations* standard. Whether it is possible for in-house teams in banks to meet standards set out by SAS70 must be in doubt.

TO HOST OR NOT TO HOST? If hosted solutions are gaining in popularity, what can we expect to see for the future of hosting? Will it remain a tool solely for smaller players? Not necessarily, if the difference to the bottom line is easily identified. The benefit lies in freeing up time and effort within the organisation and reassigning resources to other operations. Whether a corporate is a financial monolith or a medium-size regional player, hosted systems make business sense if economies of scale can be realised.

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Figure 1. The expanding role of treasury

