

Managing Corporate Actions with a SaaS delivery model : A Solution for Wealth Managers

Corporate actions processing continues to be one of the securities industry's most confounding problems. Over many years there has been a considerable effort put in by various committees worldwide, with numerous attempts to standardise through agreed procedures and messaging standards but still an industry solution has proven elusive.

For Wealth Managers corporate actions operations have remained very static during a heavy phase of industry change, through ISO15022 and advances in technology and systems over the last decade. The need for Wealth Managers to change and invest in new technology and systems has clearly not been compelling. However, new rules and changing market structures are now making a case for investment.

The efficient settlement of a corporate action is far more difficult today than a decade ago. Despite the introduction of new message standards and improved technology there is an increase in fails, worldwide and the costs and risks remain substantial for everyone in the market. This increase could be due to the growth of transaction volume and very complex dealing and investing strategies, which are pressurising the corporate actions department and taxing legacy systems. There has been no tangible reduction in costs and the risks within the process remain, without any industry consensus or accepted understanding.

A two speed capability has developed between the wholesale and the retail market, which has grown over the years and is only getting wider. Whilst wholesale markets enjoy SWIFT connectivity and high levels of STP brought about from implementation of ISO15022, the retail market struggles with legacy systems, non standard data communication and process management. A market is only as strong as the weakest link and the weak link in corporate actions processing is on the retail side.

The explosion of many new rules and regulations in the global securities industry has burdened firms in the past and there appears no let up in the future. Investing in technology solutions based on a regulatory demand rather than an operational improvement has helped create a capability gap in operational efficiency, which is most notable in the corporate actions department.

For Wealth Managers the number of demands on their systems appears to be almost exponential, with business support provided by a legacy system that was designed for a bygone age. In an age,

when the investor had most focus and where their brokers supplied them with regulated services, which were reliable and formed the operational basis that Wealth Managers could build their business around.

However, when markets change it always brings about to a greater or lesser extent, systems upgrades, developments or procurement. All of these have significant implementation costs and have proven a deterrent for Wealth Managers investment.

When the overall costs are added up they can be even more expensive than the procured system, this too can be a deterrent.

Wealth Managers and other buy-side firms who have invested in new systems over the last decade in Europe mainly did so because of MiFID. MiFID brought about many new regulatory requirements, creating changes in market structure and new trading venues, making the corporate actions process harder.

Portfolios are now executed on many more trading venues and cleared through many more clearing houses. All this change has very little if any benefit to Wealth Managers but does have cost impacts, if systems have to be enhanced or solutions developed.

On the face of it the buy-side is in a 'no win' situation, being constrained by its current systems technology and architecture. Unable to risk total change or by the size of investment needed, to replace its legacy technology. In the meantime new technology keeps advancing creating an increasing gap. Ultimately Wealth Managers will have to invest but will probably be seduced into an apparent cost effective stopgap solution and this will only paper over the cracks. How then can the buy-side bridge the gap and bring about a real cost effective solution to their problems?

Continual systems development and the need to remain compliant and competitive in servicing their clients, is an expensive business to be in and is getting more expensive. Outsourcing has been an option in the market for years but with new technology and new service providers emerging, a fresh look at cloud computing / SaaS models (Software as a Service) is imperative.

Software houses have gone through several decades of incredible change. Accumulating knowledge, becoming the most informed and intuitive experts on operational problems and learning how technology can best be applied to not only solve problems but institute business opportunities and



operational efficiency for their customers. Wealth Managers can now benefit from these new and refined offerings which offer an attractive alternative to developing their own technology.

SaaS (also known as software on demand) all have attractions for Wealth Managers. But it is a matter of choice to find the best fit for the individual company.

For corporate actions a SaaS solution can make use of the web through a cloud, enabling the buy-side to achieve a similar quality of systems capability as the largest and best names in the industry. The problems of any legacy system are negated, enabling buy-side firms to have enormously, enhanced operational capability.

Modern, modular, software systems enable firms to take on board new functionality as a staged approach, adding new modules as and when required. For example the SaaS solution, could provide Data Capture and Notifications leading eventually to a complete offering covering the soup to nuts corporate action lifecycle. This is a very low risk option, which is extremely cost effective, using a tried and trusted solution, rather than the more challenging 'Big Bang' complete system installation, with all the concerns this can bring.

Software vendors such as Vermeg, that have a full range of corporate actions functionality but can also provide a wide range of systems capability to cover complete operational processing and accounting needs are likely to offer the best SaaS solution. Remember it is a mixture of technology modules, IT competency and knowledge with experience that are required for the best outcome.

The securities industry was once underpinned by a number of bureau service firms. They all disappeared in the eighties as changes in the market called for firms to invest in their own systems. However, the time has arrived when a modern version of outsourcing can now be implemented. For Wealth Managers the technology seams are beginning to burst and it's now time for an alternative to be introduced. The future is loaded with new regulatory and business needs and Wealth Managers are going to be under intense pressure to support their business and a fresh look at outsourcing and SaaS solutions called for. It might be an old idea but with today's internet-based technology, it's a whole new solution.

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