In Conversation With Arin Ray

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Integrating trading activities in the front office with post-trade functions in the mid-back office, such as confirmation, reconciliation, corporate actions, and reporting functions can be a daunting task. In this exclusive interview, Arin Ray, analyst with Celent's Securities and Investments team, talks to Charanjit Singh, Wipro's Practice Lead for Interoperability with the Securities & Capital Markets business about trends, challenges and differentiation strategies that capital market firms need to adopt in the financial messaging space.

Charanjit: What are the global and regional trends that you see in the financial messaging space?

Arin: The financial messaging space is witnessing growth in volume and complexity. The global financial services industry is becoming increasingly connected as firms expand into newer territories and grow client bases. The electronification of trading, payments and general modes of communication, is giving rise to large volumes of financial messages. Technology and operations of several business lines at financial institutions have traditionally been organized into silos, resulting in not only disparate systems and processes but also different types, formats, and protocols of messages. Managing the growth and increasing variety of messages, while improving the speed of operations, is becoming increasingly important.

Regulatory changes since the crisis of 2008 have curbed risk-taking capabilities of sell-side firms, resulting in buy-side players assuming a greater role in the provision of liquidity, which requires new connectivity arrangements between market participants. Market structure changes, such as Eurosystem's Target2 Securities and the move to shorter settlement cycles are impacting the financial services messaging landscape. The move towards the central clearing of over-the-counter derivatives and reporting of trades at trade repositories is further giving rise to new message volumes and complexities.

These changes are taking place globally, even though developed western markets have traditionally led technology adoption in financial services. Many emerging economies rely heavily on foreign investors and international investors are increasingly demanding uniform standards and practices from local intermediaries. Some emerging market players are less constrained by legacy technology and are looking to leapfrog the technology evolution curve to achieve international standards.

Charanjit: What are the common messaging and integration challenges faced by capital markets firms?

Arin: Financial institutions traditionally approached technology and operations in silos, resulting in a lot of redundancy and duplication. As firms seek to cut costs and improve efficiency, integrating disparate systems and standards will be a challenge. Capital Market firms have additional considerations:

- The proliferation of trading venues have created new connectivity and communication requirements
- Standards and practices followed by market infrastructure providers keep evolving
- Financial institutions have to make regular adjustments to engage with them

Another challenge is to adopt efficient infrastructure to support the high volumes and high speed of varying structured and unstructured data coming from exchanges and data vendors and to integrate them with order management systems, execution management systems and algorithmic trading tools. Integrating trading activities in the front office with post-trade functions in the mid-back office, such as confirmation, reconciliation, corporate actions and reporting functions can be a daunting task. While the need to achieve straight-through processing from the front office to the back office is widely felt, actual implementation can be difficult. With the growing electronification of trading in different asset classes, multi-asset class trading is growing and cross-asset trading is gaining traction; as a result, integrating processes across business lines and asset classes is becoming even more challenging. The constant evolution of regulatory requirements, particularly in reporting, can be burdensome for individual financial institutions to keep track of and respond to on an ongoing basis.

Charanjit: What differentiation strategies can the management adopt to resolve these challenges?

Arin: With evolving market structures and business strategies, automating processes and improving straight-through processing capabilities will be key for containing costs, increasing efficiency, and mitigating risk. This should enable the efficient management of messages of different formats and contents, such as SWIFT, FIX, FpML, and ISO. The next step would be to consolidate messaging operations across asset classes and business lines by standardizing rules and business processes. This will be particularly important for larger financial institutions – giving them better monitoring capabilities and superior control over their operations in different regions and lines of businesses. This should lead to an enterprise-wide messaging approach that can make institutions more efficient and agile in responding to changing business and regulatory requirements.

Such transformation would require significant investment of resources and can take time not only during the design, testing, and implementation phases, but also for regular ongoing maintenance. This is a barrier for many firms already challenged by budget constraints and uncertain market conditions. Leveraging the expertise and demonstrated capabilities of third-party providers is one way of keeping costs down and gaining valuable insights. Beyond traditional outsourcing arrangements, financial institutions may consider managed service offerings, where a third-party provider takes charge of complete processes and infrastructure, offering additional benefits to the financial institutions.

Charanjit: What are your views on providing messaging transformations as-a-service or on a subscription model?

Arin: Messaging transformation under an as-a-service model can offer a number of benefits to financial institutions. The biggest benefit is the potential for cost reduction. A specialist provider offering message transformation services under a managed service model can achieve economies of scale, lower implementation time, improve efficiency and provide smoother ongoing maintenance as compared to an individual financial institution managing processes in-house, or even in a traditional outsourcing arrangement where the financial institution still has to spend significant resources and efforts in design, development, and testing phases. The as-a-service model can bring down costs in pure dollar terms during initial implementation as well as for ongoing maintenance; additionally, it frees up resources allowing financial institutions to focus resources on core, differentiating activities. In a managed service arrangement, it is also easier and quicker to scale up or down in response to continuous market changes – an aspect that has become particularly important in recent times due to fluctuating trading and settlement volumes. Furthermore, responding to constantly evolving regulatory and market structure changes in a timely and efficient manner is much easier for a third-party specialist provider. The as-a-service model is gaining a lot of traction in recent times in several areas of capital markets operations as financial institutions look to reduce costs by leveraging the multi-tenancy option and economies of scale of this model. As the supply side providers ramp up their capabilities, we expect such models to gain traction in the long run.

Charanjit: When it comes to message transformation, what is the value that a service provider like Wipro can bring to capital markets firms?

Arin: Messaging and message transformation services are offered by several providers with each having its sweet spot in terms of industry, business line, functional and asset class coverage. Many messaging service providers started by providing payment-related messages and still predominantly serve banking-focused functions and institutions. Therefore, an important factor for message transformation services in capital markets would be the provider's depth of understanding and demonstrated capabilities in operations specific to capital markets. As financial institutions look to integrate their systems and processes across the front and back office, spanning business lines and asset classes, firms like Wipro that have long established capabilities supporting a range of capital market institutions can offer significant benefits leveraging their existing expertise and domain knowledge. Financial institutions also often look for additional support such as specific customization needs, integration with other systems, etc. It is easier for service providers with deep domain expertise in capital markets to complement their core messaging solution with additional support and services in adjacent areas for financial institutions that need extra help or whose needs evolve over time.

About Arin Ray

Arin Ray is an analyst with Celent's Securities & Investments practice and is based in the firm's New York office. Arin's expertise lies in capital markets where he has extensive research experience in exchange trading, clearing and settlement, brokerages and use of technology in capital markets. In his recent consulting work, he has advised a large European financial services provider to devise their post trade (settlement) strategy, a tier 1 Japanese brokerage in their product and technology strategy and a leading international exchange in their market entry and growth strategy in Asian markets. He has published research reports on exchange and over the counter trading, exchange strategies and adoption of trading technology in different sub-segments of capital markets.

Arin has been quoted regularly in the media, including Reuters, Wall Street Journal, Financial Times, Dow Jones, Press Trust of India, Economic Times, Financial Express, Finance Asia, Global Investor Magazine, Business Standard, Asian Investor, Pension & Investment, Business Week, and Securities Industry News. In addition, he regularly contributes bylined articles for the financial media; his articles have appeared in The Journal of Trading, Advanced Trading, Free Press Journal, FT Asian Investment, gtnews, and Ignites Asia among others.

Arin received his MBA from the Indian Institute of Management, Bangalore and B.E. in Electronics and Telecommunication Engineering from Jadavpur University. He is fluent in English, Hindi and Bengali.

About Charanjit Singh

Charanjit Singh is a principal consultant in the post trade services group of the Capital Markets business unit at Wipro. He brings more than 13 years of business & technology consulting experience in banking, securities and capital markets. Charanjit has worked in a number of strategic projects with investment banks and global custodians and has vast domain expertise in payments, corporate action, derivatives and swift messaging.

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