wipro.com

Financial Institutions Warm Up to Artificial Intelligence to Break Siloes in Reconciliation

A sneak peek at the wish list of executives at financial institutions (FIs) will highlight the need for reconciliation functions more than ever before. Reconciliation is no longer perceived and addressed as an operational function alone. It is rather largely driven by regulatory compliance and risk management.

European Market Infrastructure Regulation (EMIR) and the Dodd-Frank Act in the United States require the investment community to perform portfolio reconciliations bilaterally by counterparties and qualified third parties.

Basel III implementation requires banking institutions to reconcile transactional data from across organizations for inputs on risk calculations. Increased reporting requirements of MiFID II, MiFIR & FATCA require data to be pulled from across the organization and reconciled while maintaining a full audit trail. Most institutions have siloed reconciliation systems or have multiple reconciliation activities running at the same time that make it difficult to meet such regulatory requirements while trying to gain control over costly disparate processes.

A new age reconciliation system would provide built-in intelligent trend analysis for automation of the most repetitive reconciliation activities and incorporate business knowledge with an easy tool configurability. It would also deploy fast, offer scalable performance and leverage Artificial Intelligence (AI) tools, like machine learning, that can offer real-time support for reconciliation.

What makes the current model untenable?

From front-to-back office functions, including treasury and compliance, reconciliation systems have a significant part to play in every nook and cranny of an I's operations. Over the years, financial institutions have implemented different recon solutions for their varied recon needs, which lead to a decentralized and unsustainable reconciliation landscape.

Financial institutions have been using a mix of reconciliation options to meet compliance and regulatory requirements:

Reliance on Manual Reconciliation

Lack of easy configurable reconciliation solutions and complex reconciliation needs make it imperative for organizations to still perform manual reconciliations as a work around in back office operations like inter system recon, chargebacks, suspense account recons, etc. Manual processes which rely on "key individuals," expose organizations to financial and legal risks.

Legacy / In-house Custom Built Solutions

Often running on outdated technologies, in-house custom-built solutions are typically difficult to maintain. Such non-scalable solutions are also difficult to retire and often need reverse engineering to understand the business logic programmed-in over the years.

Vendor Reconciliation Solutions

Financial institutions use different vendor systems for different types of reconciliations due to lack of a "one-stop" solution. Most FIs use more than one vendor platform (i.e., different solutions for cash/nostro, OTC Derivatives, trade confirmations, and forex reconciliations).

Thus, account reconciliation becomes a manual and time-consuming process. Some of the key challenges FIs face are:

- Decentralized solution implementations (siloed approach)
- Inability to process massive data volumes, leading to implementation of multiple reconciliation systems
- Unable to keep pace with the changing market dynamics due to long reconciliation onboarding timescales and low level of automation
- High volumes of unresolved business exceptions (breaks), as tools have limited engineering, AI and machine learning capability to capture business knowledge within configuration rules
- Absence of end-to-end functionality: separate ancillary tools are generally needed for integration, reporting, archival and disaster recovery

What's a sustainable reconciliation model?

Financial institutions need to look at transforming and rationalizing the reconciliation technology and work towards implementing a centralized platform that is capable of handling entire operations. It should be a highly configurable solution to reduce transformation timelines.

A centralized platform should be a one-stop solution for end-to-end reconciliation services like enterprise integration, reporting, document management, archival and disaster recovery. This helps in reducing the overall implementation timelines, TCO and provides better integrated features.

Key features of a sustainable reconciliation solution

Technology

- Use of **Cognitive Learning** to imbibe business knowledge and auto-learning recon rules; cognitive Learning tools identify patterns an enhance auto matching
- **High Match Rates –** High performance matching algorithm with Artificial Intelligence
- **High Processing Speed –** Intelligent transaction matching algorithm and ensuring high processing speed and volumes
- **Single Platform –** Single solution for all the reconciliation needs (cash/nostro, OTC derivatives, trade confirmations, forex, etc.)
- **Complete Data/Transaction Lifecycle Management -** Integrated solution which can transform, cleanse, reconcile the transactions across their lifecycle

Offerings

- **Fast & Simple Recon Onboarding –** Highly configurable UI-based onboarding with no coding or scripting required
- **Flexible Service Models –** choice of an economical shared-cloud service model, or on-premise exclusive Private Cloud service
- **Data Quality –** Integrated data exception management to resolve issues prior to reconciliation run
- **Dashboards –** Real-time risk and performance indicator dashboards

Moving from siloed implementations (point solutions) to centrally managed reconciliation platforms is the best way forward. Financial institutions will be able to automate manual processes, retire outdated legacy systems, and consolidate disparate point solutions. The result will be a step towards a forward-looking organization, ready to comply with the ever changing regulations and face the volatile market dynamics with agility.

About the author

Tirupathi Rao Dockara is the Product Manager for Wipro's IP Solution. Tirupathi has been leading software project teams for development of distributed client server applications in Storage, BFSI, Retail and Green IT domains for the past 17 years. He manages the development center for Software Innovation.

Rajat Yadav, with over last 17 years of experience, is responsible for conceptualizing business needs for Wipro's IP Solution and has been leading consulting, product innovation and solution design. He also has expertise in domain consulting, pre-sales, customer engagement

About Wipro

Wipro Limited (NYSE: WIT, BSE: 507685, NSE: WIPRO) is a leading information technology, consulting and business process services company that delivers solutions to enable its clients do business better. Wipro delivers winning business outcomes through its deep industry experience and a 360 degree view of "Business through Technology." By combining digital strategy, customer centric design, advanced analytics and product engineering approach, Wipro helps its clients create successful and adaptive businesses. A company recognized globally for its comprehensive portfolio of services, strong commitment to sustainability and good corporate citizenship, Wipro has a dedicated workforce of over 170,000, serving clients across 6 continents. For more information, please visit **wipro.com** or write to us at **info@wipro.com**

This article was also published on Tabb Forum.

DO BUSINESS BETTER

CONSULTING | SYSTEM INTEGRATION | BUSINESS PROCESS SERVICES

WIPRO TECHNOLOGIES, DODDAKANNELLI, SARJAPUR ROAD, BANGALORE - 560 035, INDIA. TEL : +91 (80) 2844 0011, FAX : +91 (80) 2844 0256

IND/B&T/JAN-DEC2016