

waters



Nearly 6,000 attended Sibos
2006 in Sydney, Australia

Big Mo'

in Boston

This year's Sibos exhibition and conference promises to move on long-standing issues and help firms prepare to act quickly on emerging challenges.

By *Phil Albinus*

As if winning the World Series two years ago for the first time in almost a century weren't enough, Boston is also the host of this year's Sibos conference and exhibition. Swift, the messaging giant and event sponsor, chose the theme "Gaining Momentum" for this year's annual event, which is expected to draw 6,500 executives and technology professionals from around the world. But where exactly is the momentum headed?

This year, Swift and the event's co-sponsors plan to survey the financial IT industry's horizon and compare the

progress from last year's event in Sydney by taking stock of how last year's ambitions translated into this year's concrete plans and projects. While many of the goals were lofty, many of these initiatives—such as regulatory compliance and MiFID—are several years old.

Waters interviewed a number of financial services vendors and exhibitors to get their take on the issues and trends that matter the most to financial IT professionals. We asked for news that firms planned to unveil at the show and for their opinions on the major trends that have been plaguing the IT corner office inside banks and exchanges

for years. We also asked them to identify the trends that are bubbling under the surface and are ready to emerge in the coming year. While this is an industry that often needs years to solve problems, new dilemmas and challenges always emerge.

THE LATEST TRENDS

For market research firm Financial Insights, many financial IT trends remain stubbornly alive and well. According to Jeanne Capachin, research vice president, global banking for Financial Insights, the first key trend is revitalization of core applications. One approach is investing in Service Oriented Architecture (SOA), she says. However, she says, "the industry is still taking baby steps, and banks are mostly taking a line-of-business point of view, which to really meet its promise, SOA needs to be rolled out throughout the enterprise with consistent processes and meta-data."

Capachin believes that this is a big challenge that can't be achieved without senior executive support and up-front investment. Another approach banks are taking is to replace core banking systems or components of systems. "This is something that tier one banks aren't yet ready to do, but there are tier two banks that are taking the plunge and turning to new entrants rather than the incumbent players" for the expertise, she says.

Capachin considers this a high stakes game both for institutions and software and systems integration vendors. The other approach is to divide and conquer, gradually replacing components and rebuilding functionality off the core platform by using newer technology, she adds.

Mobile banking is another challenge quickly rising to the forefront of many firms' project plans, especially with Citi's marketing campaign around its CitiMobile announcement in April.

"Last year, banks were discussing options with vendors, but now they are ready to commit and contracts are getting signed, with rollout coming in 2008. The big question remaining is whether consumers will adopt or not, and we don't have



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research yet that indicates how US consumers will react," says Capachin. "We're following Citi closely to see how this initiative works for them."

One emerging theme is the widening gap between big banks and small ones. "The Internet was supposed to level the playing field, as was remote deposit capture. Instead, the largest institutions are returning the most profits, and that trend is increasing. Large institutions have more diversified revenue and funding streams than their smaller brethren, and in a tough market such as this one, that is an important distinction," says Capachin.

To succeed, smaller institutions must focus on their differentiators, rather than trying to constantly play catch-up to the larger institutions, according to the Financial Insights analyst. "Where relationships and customer services are important, community banks have the upper hand. They need to continue to invest in technology, but make the right investments to reach parity, and make sure their technology partners are the ones that play to their strengths," says Capachin.

Pam Pecs, CEO and founder of investment accounting solution provider Pendo Systems, sees two hot trends surfacing at Sibos this year. "Security and changing demographics will drive changes in the way that people will look to invest, leverage technology, and seek changes that benefit themselves and society," she says.

Pecs believes security is going to be an area of increasing concern as more straight-through processing (STP) is used to fund and drive financial activities. "This coupled with the increasing exposure in a global economy where we are not fully abreast or aware of the risks that are being taken, especially in

complex instruments, means we need to build new trust relationships and secure our financial networks from those who wish to do harm," says Pecs. "This is particularly important to comprehend when you consider the fact that the vast amount of Internet and network traffic is driven by the United States. This makes it a single point of failure should there be an outage in other developing countries."

Banks must consider how changing demographics will impact the population as it ages. "The issue here is the investment cycle, and emphasis on risk exposures will change. We will also see a new group of employees coming into the workforce who will want to use different tools and approaches to make things happen," says Pecs. "This is something that will cause cultural conflicts in many organizations as they grapple with the change these younger employees are going to drive."

When it comes to new trends for the coming year, Pecs pulls no punches. "It's time that we started to look at the amount of money that has been spent on reference data, and will it ever be solved. We tend to only talk about the future stuff, but I think, if we look back at trends and the impact on the industry, that a historical perspective can be worthwhile. Take technology—we have a two-tier architecture gaining greater throughput, reliability, and scalability than any three-tier available. That's more like a mainframe now, isn't it?"

IT'S A SMALL WORLD

A five-Sibos-event veteran, Ed Neeck, senior vice president of the network management group of JPMorgan, believes that the hot topics for Sibos are truly global. "One key issue is European harmonization, especially on the cash and securities side.

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What is important for payments is SEPA and how that can help clients have a standard across Europe," he says, referring to the Single European Payments Area initiative.

JPMorgan will continue to look beyond the United States and Europe for new opportunities. "Similar to harmonization, globalization will be a hot topic at Sibos. Much like BRICA [Brazil, Russia, India, China, and Africa], it's about expanding our international footprint. Clients want to invest in exotic markets like Kazakhstan, Nigeria, and Kenya as well as other markets all over the world. We are seeing activity which was once considered exotic becoming more mainstream," says Neeck.

Look no further than Nigeria. "There will be further maturation in that market and its infrastructure, but the investor is getting increasingly more comfortable investing there. Swift is moving in those [global] directions, and although globalization may be a buzzword, for securities and payments, it's all about moving exotic markets into the mainstream."

The payments industry is undergoing significant changes across the globe, agrees Colin Day, vice president of business development and marketing for financial software provider SunGard Data Systems. "The continued consolidation of payments players in the US and with Europe's movement to TARGET 2, coupled with the SEPA initiative, will equate the price of all cross-border Euro payments to domestic payments, thus decreasing payment product margins by an estimated €29 billion (\$39.56 billion) in lost revenue [per year]," he says. "In order for institutions to take advantage of services offered on TARGET2, they need a liquidity management solution that can provide a

global view of their liquidity and provide tools for them to act upon the data presented in this integrated cash position."

Says Day, "any bank that does business in Europe will need to comply with these initiatives, and soon."

Exceptions are a vexing technical difficulty, says Day. "They expose institutions to operational risk and inefficiencies that can result in financial loss and poor customer service. Firms must advance to apply the same level of technology to the exceptional item as is applied to those transactions that flow straight through our processing infrastructures," he says.

NEWS TO WATCH

As Swift is Sibos' sponsor, messaging is a key topic. Hugh Daly, CEO of Message Automation, says his firm will announce its comprehensive OTC derivatives post-trade processing solution. Using FpML-based technology, the solution aims to help customers improve the efficiency of managing their OTC derivatives trade portfolios across all asset classes.

"Derivatives are not as technically simple to deal with as equity or FX trades. This is because they are highly structured products with complex post-trade business processes," says Daly. "Nevertheless, these processes and structures consist of building blocks that are common across asset classes. A 'swaption' has an exercise structure just like an equity option." He says that a confirmation match for a swaption identifies trade pairs and compares detailed values, just like for a credit derivative.

"The industry needs to realize such commonalities can and must be exploited if it is to become fully automated across all asset classes and achieve the volumes necessary to profit from decreasing margins. The next inflation product, loan credit default swap, and bond option will always be just around the corner. This



Pamela Pecs, Pendo Systems

needs to be accepted as a natural part of the problem that has to be dealt with," says Daly.

CheckFree is set to announce a new account certification module as part of its Accurate NXG solution. The vendor also plans to showcase a new release of its corporate actions solution, CheckFree eEvent version 2.3.1. Furthermore, CheckFree will launch CheckFree TradeFlow 2.2, which is a workflow solution focused on OTC derivatives, specifically for connectivity and post-trade processing via the Depository Trust and Clearing Corp.'s (DTCC) Deriv/SERV. The vendor declined to provide further details until the event.

Naren Patel, director of securities business development at CheckFree, also sees transaction volume continuing to grow for financial services companies around the world. "The increase in various transactions, the movement of corporations to utilize the Swift network and continuing rise in the use of new financial instruments, such as OTC derivatives, mean transaction volumes are rising disproportionately faster than the systems that process them," says Patel.

One unavoidable future trend is the aftermath of ambitious mergers and acquisitions. "For every merger or acquisition, banks must integrate the operations of the merged entity so that the newly-created firm runs smoothly, and this is becoming increasingly difficult," he says. The operating platform built for a large bank is often doubled once the acquisition takes place, and this puts a



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significant amount of pressure on the new company to implement it correctly. “Poor integration of the operational merger can impact the bottom line, which can cause problems for the newly-merged company,” says Patel.

Also Sibos news related—according to Eric Johnson, vice president of financial services at Sybase, the firm will update its real-time analytics version 4.0 for the fourth quarter. It had been called the Risk Analytics Platform, but it is now the Real-time Analytics Platform (RAP). “It’s our platform that includes real-time and historical data management. The market forces that are driving this need are the extreme volume increases due to algorithmic trading, [and the need for] real-time and near-time compliance and real-time risk analytics,” says Sybase’s Johnson.

The vendor is adding mobile banking and messaging capabilities to its software. “We acquired Global 365, one of the leading asset messaging companies that aggregates messages for telcos. We have taken that functionality and added that module to our suite of solutions,” he says.

Also on the news front, FundTech said it will announce UK Faster Payments benchmark results. “We exceeded requirements of UK Faster Payments for a large UK bank,” says Charlotte Crivelli, a representative for FundTech; she declined to name the institution.

FundTech sees the market demanding consolidated solutions that allow banks to process both retail low-value and high-value payments through ever-converging payments platforms. “More and more we hear clients saying they want integrated solutions and flexible options rather than multiple payments services from multiple vendors, across the enterprise. The industry will continue to request solutions that, if not now, in the future, have the ability to satisfy all of their customers with a single payments system that works across the business lines,” says Crivelli.

“A great deal of discussion continues around the benefits of automating the

financial supply chain, which is increasingly recognized as an area offering significant potential for generating bottom-line improvements,” she says.

LOWDOWN ON EDM

Keeping in mind that enterprise data management (EDM) remains a thorn in the side of the industry, GoldenSource plans to release the results of an EDM report that includes three studies focused on specific challenges faced by global reference data managers. The first outlines the current state of managing instrument data in reference data master files; the second makes a case for the growing importance of linking counterparty data into the security master; and the third reveals the industry status in connecting positions and holdings with reference data.

The EDM marketplace is maturing, and that will have a profound effect, says Fritz McCormick, director of business development of GoldenSource. “After years of resiliency and persistence, data management practitioners have proven themselves and their cause and are being elevated to senior management roles,” he says. He predicts that this will emphasize the importance of EDM and will create the demand for an enhanced level of execution from all market participants.

Guillaume Weeger, vice president of business development for Calypso, says the firm is set to announce new clients and projects that will have gone live by the time of the event, but declined to elaborate. Weeger sees the incredible explosion in alternative asset management, particularly complex derivatives trading, continuing to spur technology change that will support these strategies.

“Firms need integrated collateral management, for example. Volume business needs to be streamlined in order to reduce costs, as more complex instruments become standard and integrated into this business. Workflow must be improved in order to reduce processing errors, even as processing becomes increasingly difficult,” says Weeger.

Weeger believes that while more exotic instruments appear in the market, firms struggle with processing these products. “As spreads tighten on vanilla instruments, traders and structurers attempt to innovate by frequently introducing new instruments to improve margins, particularly in the credit market,” he says. Weeger adds that trading is becoming less siloed and increasingly cross-asset and structured.

“We are seeing interest rates, credit products, and commodities, all bundled in one structure. While front-office applications still run on Excel or on a flexible in-house system, back-office applications are mired in less-flexible infrastructures thus weighing down banks’ time-to-market,” says Weeger.

Although she declined to spill the beans on any news to be announced at Sibos, Ann King, senior manager, solutions marketing for RSA, the security division of storage giant EMC, did talk about trends. “We’ve spent the last few months doing a lot of investigation and analysis in the markets for security and business industry trends, such as regulatory compliance, expansion to new markets, securing business continuity, and new products to expand customer loyalty,” says King.

Some large financial institutions are interested in embedding EMC’s tools into their solutions for corporate clients. Security and storage are “slowly being seen as revenue generators, when in the past they used to be expenses,” says King.

When asked about future trends, King says firms are looking to bring more corporate practices that once resided in the back office out to the enterprise. “When you look at cash management, sales and marketing and other different lines of business, they have corporate functions. There are now more opportunities to take a look at other types of best practices and address them at the corporate level,” she says. “This will bring improvements and minimize expenses.”

Sibos 2007 will take place in Boston on Oct. 1 through Oct. 5. For more information, consult www.sibos.org. ■