Insideview

Process Maturity in the Securities Lending Industry

INTERVIEW WITH DENNIS SCHETSCHOK AND SYLVIA ROSENZWEIG, IBM DEUTSCHLAND GMBH

Dennis Schetschok
Managing Consultant,
Financial Services –
Financial Markets
IBM Deutschland

Sylvia Rosenzweig
Consultant,
Capital Markets
IBM Deutschland

In 2009, IBM conducted a market study with leading financial markets institutions and examined their securities lending processes. Please provide some information on the background of the study.

Before the financial crisis, securities lending volumes were rising at an annual rate of 10%. Even though the market has slowed down during the crisis, we are expecting the trend to continue once the markets will have recovered. Institutions will need to handle rising numbers of transactions with existing resources, which will put them under pressure to optimize and automate processes in order to remain competitive. As a result, institutions must actively manage their process results and not leave them up to chance. In our study, we determined the market's readiness for the process-related challenges ahead.

Could you please summarize the main findings of the market study?

All participating institutions have process descriptions available and most of them have process controls via profit- or yield-related indicators in place. However, there are divergences regarding the level of detail and topicality of the documentation. Similarly, end-to-end process descriptions and documentation of process interdependencies are largely missing. Process management software is rarely used and process owners have limited responsibility. There are no process-based figures that could be used to detect inefficiencies at an early stage. Overall, process management maturity is rather low.

Concerning the individual design of securities lending processes, there is often no full integration between front- and back-office systems, which leads to interruptions in the process flow. Manual and often paper-based activities are used to bridge the gap between systems where interfaces are missing. Also, spreadsheets which are prone to error, are used to perform calculations or to monitor the process flow. In summary, there is a multitude of risks for process failures, but to the same extent also a high potential for automation. Companies just have to make use of it.

Which trends and challenges do you see for the institutions in this market in the next few years?

We expect the trend of rising transaction quantities and volumes to pick up again. Consequently, pressure on institutions to carry out transactions in a timely and correct manner with existing resources will rise. Likewise, the risk of errors occurring in the process flow will increase.

We also made the observation that institutions tend to disintegrate the securities lending process chain: They no longer bundle all activities within one department, but execute subprocesses such as corporate actions and fee calculations in different organizational units, even off-shore. We expect this trend to carry on as companies seek to lower their process costs. However, disintegration, in particular off-shore, adds to the complexity of the process due to the rising number of process interfaces and thus increases the need for a thorough process management.

How can market participants prepare for and benefit from the challenges ahead?

Institutions need to focus on building a solid process management. It is essential that they establish transparency of the process and its main influencing factors by means of process documentation and key performance indicators. Transparency will enable them to gain control over the process and to react quickly to arising difficulties. In addition, process-based metrics can be used to efficiently manage external service providers as well as service units within the organization via defined service levels. Similarly, maintaining detailed process documentation prevents the loss of know-how and flexibility even when a process is highly disintegrated.

Not every institution needs to strive for process excellence. The appropriate level of process maturity is based on factors such as risks and cost of processes.

Thank you for this interesting conversation.