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## Accelerating towards a digital future

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**Rob Scott, head of custody, collateral & clearing at Commerzbank, explains the importance of data in the digitalization of the post-trade environment and the potential of blockchain and artificial intelligence to transform the customer experience.**

Digitalization has been a key focus for Commerzbank in recent years. We are committed to digitalizing 80% of our relevant processes by 2020 and as part of this process we have been working to develop a wider range of online tools and boost online client interaction.

### Author

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This drive towards digitalization is changing the post-trade experience as we move towards a smoother integration between front and back office and improved connectivity with our clients.

There is an expectation that data should flow freely in the commercial world as it does through the devices we use in our personal lives, but on the institutional side of the business digitalization has developed slowly.

Now, when systems and processes are rebuilt the objective is to connect with clients in a more instant, real-time manner. Clients want apps and connectivity that can be integrated into their desktop and mobile devices.

Post-trade infrastructure is typically legacy and there are discussions taking place across the industry around the merits of undertaking multi-year implementation projects with new equipment that might almost be redundant by the time it goes live. The quest is to find an operating model that provides the required connectivity to clients and between the post- and pre-trade worlds where digitalization is more prevalent.

There has also been much discussion about the likely impact of blockchain technology. There are numerous blockchain projects under way and it clearly has the potential to transform, for example, repetitive, often duplicative and time-consuming reconciliation functions.

However, until main market infrastructures start adopting the technology (the best example of this to date is the Australian Securities Exchange, which has plans to use a distributed public ledger for equity transactions), it will be challenging because blockchain is only as good as the network that uses it. Until wider adoption is a reality, some efficiencies can be derived but these have marginal benefit and commercial use.

For the most part, the focus to date has been on finding individual answers to specific components of the value chain rather than creating end-to-end solutions, which has also held back adoption.

We expect blockchain to gain greater traction in areas such as trade finance, which is a highly manual, paper-based business. Commerzbank is involved in the Marco Polo initiative, which is facilitating trade and working capital finance solutions between banks and their corporate clients, creating a better customer experience and seamless data integration while reducing costs, time and risk through the use of APIs and blockchain technology.

This is a great example of where blockchain is addressing a challenge faced by organisations across the banking industry and we expect to see wider use of the technology in the cash and trade world.

Other technologies will also have an impact. For example, from a post-trade perspective we are looking at developments in robotic process automation with pilot projects under way, for example, around collateral management.

Our objective is to find ways of automating mundane, repetitive functions to remove human error and enable our people to spend more time talking to customers. We want to focus on the customer experience and improving our communication with these customers.

All new technologies have the potential to improve the efficiency of an unconnected, non-real time environment. The challenge is that these technologies are all premised on having clean, up-to-date information at the core – structured data that is reliable, consistent and accurate.

At a robotic process automation event earlier this year a major UK bank discussed its experience of using bots (software applications that run automated tasks). The bank revealed that it had to turn off these bots after less than two weeks because the underlying data was inconsistent and as a result the bots were learning behaviours that were not accurate. Also, the bots were built on top of legacy environments which often are unreliable and have down-time due to various operating factors.

The first objective in any digitalization initiative is to resolve data issues – data is often replicated across multiple systems in different formats or for different purposes. Artificial intelligence cannot be adopted effectively without structured and well-defined data. Of course it can be used as part of a “toolset” to spot inconsistencies across these legacy platforms but for the real commercial benefits to be derived, having a strong focus and better understanding of data is key and is a requirement for successful adoption of many new technologies.

Banks have a wealth of information available to them and if they can better understand this data, they will be able to provide a much more tailored service. This is a vital point – in an era where everything else has become commoditized and therefore marginalized in terms of revenue opportunities, better use of data creates an opportunity for financial institutions to create a tailored range of bespoke products and services for clients.

I am often asked what the future digital enterprise solution will bring to clients. My initial response is that I expect financial institutions to become more app-based to replicate how customers already interact with their personal devices.

This will impact clients in a number of ways, for example giving them access to better solutions and targeted products. Easy-to-use, reliable, instant and transparent services and interaction with banking products will not only restore but enhance some of the trust that was damaged during the global financial crisis. The transformation to digital enterprises is real and upon us.

Our working lives are largely characterized by monitoring and planning activities at their core. In future, the winners will not necessarily be those who have planned the best but those who have adapted quickly to change. Agility and speed will be the fundamental and decisive success factors.

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