

Tutorial 3 - Question 1

(Case: Metzler and Omgeo)

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(Team 5)



a) How has Metzler automated its business processes to ensure more efficient straight-through-processing (STP) operations?



Objective: T+1 booking

- **Method: 100% automation**
 - In the past, allocation was released by the fund manager before the trade
 - Now executed post-trade, enabling considerably shorter processing times.



Efficient Order Routing Process



Front Office
System



Externally
developed
compliance
tool



Order
management
system



Matching and
settlement
solution from
Omgeo

Efficient Order Routing Process



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Matching and
settlement
solution from
Omgeo

Order Management System

Message Translation interface → **Direct Call Interface (DCI)**

- Data from OMS is transmitted directly to Omgeo CTM
- Staff members do not have to work on different systems



Efficient Order Routing Process



Front Office
System



Externally
developed
compliance
tool



Order
management
system



Matching and
settlement
solution from
Omgeo

(Information of who bought what and who is ur broker etc)

Omgeo products



Central Trade Manager



ALERT



Benchmarks

1. Central Trade Manager

- Platform for central matching of multi-asset class transactions to further streamline trade flows, decrease operational risk and increase efficiency.
- Processes cross-border and domestic trades
- Offers exception-only processing
- Automated settlement notification in SWIFT MT541/543 format



2. Omgeo ALERT (DUP/RUP)

- Largest web-based global database for maintenance and communication of account and standing settlement instructions (SSI)
- Orders enriched with necessary standard information without manual intervention
- Significantly reduces trade failure by enabling a community which shares accurate ssi automatically



3. Omgeo Benchmarks

- Enables analysis of both operational broker/dealer performance against industry standards and internal processes
- Information utilised to raise optimization potentials



b) What do you think are some of the challenges Metzler may face in implementing STP technologies?



1. Incompatible Technologies

- Unable to achieve **collaboration** from Custodian Banks
 - Custodian banks may not have or be willing to install corresponding infrastructure that is required for the various STP products such as Omgeo CTM settlement notification function
 - Although technical installation on Metzler's side is often straightforward, time and effort is needed for the collaboration with the custodian banks
 - Without the corresponding infrastructure in place, there will be difficulty in seamlessly implementing the functions required for STP



1. Incompatible Technologies

- Metzler and other market participants, such as the custodian banks, have different systems, which need to communicate effectively to support STP
 - Difficulty in **integrating** multiple systems between Metzler and market participants due to a heterogenous IT environment



2. Inertia

- Metzler's employees may be resistant to learning new technology
 - After using systems developed by Metzler for its own needs for many years, Metzler's employees may be unwilling or unable to learn the new functions of STP products developed by third parties such as Omgeo



3. Effort

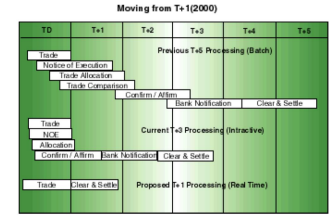


- It requires a lot of effort to implement STP technology as **significant and fundamental changes** will have to be made to primary systems
- Have to be developed in line with industry and **regulatory requirements** and responsive to **clients' needs**



3. Effort

- To obtain **T+3** settlement period, firms can simply run their batch systems more frequently and make some small changes to their interface.
- But to obtain **T+1** settlement period, Metzler will need to consider real time processing for many activities or to process transactions **less linearly** and **more in parallel**.



T+5 Process Compared to T+3 and to T+1

4. Risk and Security



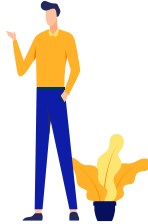
- The move towards T+1 Settlement **exposes** Metzler to cyber risks.
- The task of making an online transaction a secure one is **complex**.
 - All communications must be **confidential**
 - Ability to **control access**
 - Verify identity** of all parties
- Without such a comprehensive infrastructure vital data and applications are vulnerable to compromise; whether from outside or from within.

c) What do you think contributed to Omgeo's success in capturing the market for clearing and settlement technologies?



1. Legacy Company

- Omgeo was a collaboration between DTCC and Thomson Reuters
- Utilised the network and assets of these two financial giants, allowing them to capitalize and capture the market



2. Unique proposition

- Value proposition based on reducing our clients' total cost of ownership and lowering their operational and counterparty risk.
- Only provider uniquely positioned to facilitate the straight-through processing of institutional trades via an open and integrated ecosystem
- One of the first movers in the industry



2. Unique proposition

- Created a barrier for entry for other potential competitors
- Price its services competitively due to internal infrastructure and technology investments



3. Cyber resilience

- Remains a critical issue for the financial services industry
- Ensures proper due diligence and meets industry standard to gain trust from clients





THANK YOU!

References

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