# Ready for the change required?

**By Perpetual Corporate Trust**

16 February 2022



As regulation gets ever more complex across the financial services market, customer expectations increase, the battle for talent gets fiercer, and competition bites into margin, execs are feeling the challenge. As a result, digitisation is on everyone's lips – and, increasingly, in everyone's budget.

All types of financial services firms are trying to navigate the risk and opportunities of digitisation.

Research from Gartner highlights the importance of tech issues for Financial Services leaders. Gartner's, 2021 CEO and Senior Business Executive Survey: Financial Services, identifies tech-related priorities as one of the biggest concerns - second only to growth. And, for the second straight year, digitalisation ranks as the most important priority within the tech space.

What's driving that change? Gartner survey respondents said the demand for better digital technologies and more digital channel flexibility were the biggest shifts in customer behaviour in 2021-22.

It's no surprise then that an overwhelming 92% of the firms surveyed by Gartner were increasing their spend on 'Digital Capabilities'.

**The digital cost, the digital payoff**

For many financial services businesses, tech offers an efficiency dividend – notably for smaller banks, where 78% cite gaining efficiency through technology as a key priority (Bank Director 2021 Tech Survey).

Conversely – and especially for larger players - **legacy technology** represents an ongoing cost and a growing risk, including high maintenance and management costs, a constant drain on project and technology teams and all the additional resources required to remediate errors. There's also a substantial opportunity cost, with customers suffering sub-optimal experiences and management 'flying blind' due to insufficient data and outdated MIS. Alarmingly, the longer this reliance on legacy technology continues, the more expensive and riskier replacing legacy technology becomes.

**The funding issue – a case study**

We can look at funding processes as an example of these issues. Securitisation transactions are inherently complex, but complexity is amplified by the number of parties involved in the transaction, including law firms, rating agencies, lead managers and investors. At its core, is the loan allocation and pool selection process, which seeks to find the right-sized pool of eligible loans with the right portfolio profile and suitable risk concentrations, while also making sure loan allocations optimise the cost of funds and margins, while maintaining compliance across their funding structures. Today, managing the data, transactions, pool profiles, expenses, and reporting between all these parties is a manual process based mainly on spreadsheets and email. These outdated methods make the entire operation ineffective, a drain on key resources, inefficient or not scalable to support business's growth.

In securitisation, it's important that firms have visibility of the entire portfolio to derive timely data- driven insights to inform strategic decisions. But perhaps more critical is the firm's ability to ensure the investor experience is maintained or improved.

New technology is the obvious business solution, but that throws up another set of challenges and risks.

Developing technology to optimise funding operations means investing time, money and people not only into the initial development, but to the ongoing development and limit the tech debt that can quickly erode the performance of any application over time. Such a project can quickly become high-risk and can take a significant toll on the tech resources of any business. It also moves crucial management focus away from sales strategies, customer relationships and growth, and refocuses it internally on technology development and testing.

**Proven providers?**

In short, businesses in areas like securitisation are looking for high-powered tech solutions to solve particular problems without doing the development and high-cost specialist work themselves.
Most companies are deeply aware of the costs and risks of managing key business processes on spreadsheets. But understandably, companies aren't going to entrust a business with handling this problem without proven credentials in the development of effective, user-friendly solutions.

Karl Sick is Chief Operating Officer at BC Investment Group (BC Invest), a diversified business specialising in mortgage lending and asset management for clients in Australia and across Asia, the UK and NZ.

We're a young and fast-growing business" says Karl, "and we're always looking for ways to get our people working for stakeholders rather than navigating multiple spreadsheets. We needed funding optimisation technology to integrate all the information we need so we can move fast."

BC Invest were looking for ways to drive efficiency and scale. They chose the new Funding Optimisation module within the Perpetual Intelligence platform as a key part of that strategy.

By deploying the Perpetual Intelligence, Funding Optimisation module, BC Invest gets a complete view of the total balance sheet when making funding decisions. "That visibility means we can better understand and manage liquidity and where the opportunity and the risk lie," says Karl.

Visibility is important for investors too. "Operating within the Perpetual Intelligence platform means investors can use the platform to get a view of the facility and the underlying collateral - they're not stuck waiting for a PDF report to drop into their mailbox," says Karl.

**Experience counts**

For BC Invest – a fast-growing business where scalability matters - a partner with deep experience was necessary. According to Richard McCarthy, Group Executive at Perpetual Corporate Trust, the partnership with BC Invest and companies like them reflects a development effort that's evolved over decades.

For more than 30 years, we've been supporting the securitisation industry and adapting to clients' challenges. Perpetual Digital was established to help financial services organisations meet these challenges, and to enable their success in a constantly changing regulatory, technological and economic environment."

It's a process exemplified in the development of the Funding Optimisation module in Perpetual's Perpetual Intelligence platform. "It started with taking a holistic view of the securitisation market," says Perpetual Corporate Trust, head of Product, Matt Neece. "We wanted to be clear about how our clients could use technology to optimise their portfolio and processes when they came to do a transaction."

The new module allows firms to use their multiple warehouses, loans and specific characteristics to comply with investor requirements. "It will bring issuers and lead managers closer to investors and improve the investor experience," says Matt Neece. "We are focused on developing the types of digital solutions we think can help across the entire securitisation ecosystem."

The separate Perpetual Digital business has over 50 staff (including 15 dedicated developers) combined with internal and specialist external business partners. That emphasises the resources, specialisation and focus required to deliver tested, robust technologies into the securitisation space. It takes a lot of time, development experience and expertise to be successful in supporting digitisation.

The Funding Optimisation module is just one example of that development. "It's a digital workflow solution which helps streamline and automate the end-to-end funding processes, whether that's warehouse management, building term deals or topping up internal trusts coupled with seamless integration to investors, credit rating agencies and regulators," says Richard McCarthy.

With a fully integrated and automated International Financial Reporting Standard 9 (IFRS9) loss provisioning solution, the new module helps increase business scalability, capture insights and enhance compliance. It's designed to create efficiency, improve cyber security, reduce enterprise risk, enhance the investor experience, and help deliver a firm's bigger strategic goals by freeing up resources that could be tied up with high-risk and high-cost development.

## Not enough just to change

As financial services strategists react to the pressures mentioned throughout this article, experts are reminding them of the benefits found in taking a wider view.

*PwC's Financial Services Technology 2020 and Beyond: Embracing disruption* report says: "Most financial institutions are currently focusing much of their IT attention on the short-term. We understand this: on any given day, there are fires to fight, with regulatory fixes, fraud attempts, budget discussions and so on." But to get ahead of the curve on these issues, firms need a flexible, adaptive mindset – and trusted partners.

"We see ourselves as enablers," says Richard McCarthy. "It's our job to bring all parties in the securitisation sector seamlessly into the ecosystem and then develop end-to-end technology capability that keeps up with their changing business needs, whether they're financial, risk, regulatory or funding. We think we have built a unique development skillset and know-how in delivering ever-green digital solutions to meet our client needs today and, in the future, while making the market more efficient."

Click on the link to learn more about Perpetual Digital. Or contact Huw Moorcraft at pctsales@perpetual.com.au to find out more about the Funding Optimisation solution.

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. This information, including any assumptions and conclusions is not intended to be a comprehensive statement of relevant practise or law that is often complex and can change.

The product disclosure statement (PDS) for the relevant Fund, issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the

Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.