

Metzler and Omgeo

The way to an efficient post-trade process

METZLER
Asset Management

By implementing Omgeo Central Trade ManagerSM (Omgeo CTM), Omgeo ALERTSM and Omgeo BenchmarksSM, Metzler Asset Management has expanded its technology leadership and made decisive strides towards affirming all business transactions on T+1. Reinhardt Damm and Thorsten Köble describe the way Metzler achieved its efficient post-trade process.

Being the oldest private bank in Germany, Metzler has an unbroken tradition of family ownership. Metzler Asset Management (Metzler) operations include portfolio management services for private and institutional clients.

Metzler's assets under management amount to a total of EUR 40 billion (as of Sept 08) and 85% of transactions are processed cross-border. With subsidiaries and branches in Germany, the US, Ireland and Japan Metzler is operating internationally. The most important foreign business partners are headquartered in the USA and Europe (including Eastern Europe). Currently Metzler collaborates with 25 custodian banks and 35 brokers/dealers.

"In 2001, there were three of us in the middle office. Today there are four of us. Had we not automated our processes, we would now be twice as many people – and we still wouldn't be able to cope. Nowadays, most business partners no longer accept faxes because they are approaching 100% STP-rates too. Even with our own technology developed in-house, it would be very difficult to achieve this standard of efficiency."

Reinhardt Damm, Head of the buy-side execution desk

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ALERT
Benchmarks
Central Trade Manager
Connect
OASYS
OASYS-TradeMatch
ProtoColl
TradeHub
TradeSuite ID



Increasing volumes

The trading volume (today processed via Omgeo) has almost tripled since 2001. Rising volumes, peak loads and an increasing number of markets have also led to greater challenges and risks. In addition, the number of brokers/dealers and custodian banks has grown. For these reasons, Metzler set out to find a solution that would automate their post-trade process.

Metzler aimed to automate securities processing between brokers/dealers, investment managers and custodian banks on a single platform; instruct the custodian banks via SWIFT; and maintain long-term technology leadership in the market.

Metzler decided to implement Omgeo CTM and ALERT in order to meet the challenges of the equities and bonds market, reduce risks and execute processes with a high standard of quality.

In 2004, Metzler was one of the first three investment managers in Germany to begin processing its transactions via Omgeo CTM.

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In retrospect

The “old world” of Metzler was characterised by manual processes and proprietary system structures like its front office system or its order routing system, programmed in the 1990s. In spite of the systems used internally, external communication processes with the brokers/dealers were executed entirely manually.

The fund manager used to prepare and calculate allocations using a spreadsheet programme and present them on paper to the pre-disposition department. The data was manually fed into the systems and the securities were subsequently traded. The data concerning the executed transactions was then, again, processed manually in the system. It was to Metzler’s advantage that it was collaborating with only three custodian banks at the time.

The next step towards process optimisation was to create a link between order routing and front office. At this point in time, Metzler’s brokers/dealers were already using Omgeo OASYS GlobalSM and ALERT. As a result, the first transactions were received from OASYS Global and further processed with an internally programmed system. The processes were less complex, since Metzler had fewer transactions and still worked with a smaller number of custodian banks.

“Rising market demands and our commitment to technology leadership have, again and again, brought us back to Omgeo.”

Reinhardt Damm, Head of the buy-side execution desk

The weakest part of the old system was the large proportion of manual processing, which involved a very time-consuming control process. Moreover, there was no matching and no real-time information about whether the right position (buy or sell) was being taken. The efficient monitoring of the brokers’/dealers’ commissions also presented a problem.

The objective: T+1 booking **The method: 100 % automation**

Metzler is consistently aiming to book transactions via T+1 and avoiding failed trades. Major progress has been made in approaching this goal since along with automation, Metzler has completely reorganised its processing sequence. In the past, allocation was released by the fund manager before the trade; today, it is executed post-trade, enabling considerably shorter processing times.

Thanks to automation, the operational risk has been significantly reduced. The newly achieved transparency detects risks earlier and enables a better and faster risk management. At the same time, security requirements within the company and on the part of the supervisory authorities have been tightened. Another key issue was the desired level of control and the checking principles: in the past it was impossible to scrutinise thousands of faxes manually in detail.

“For us, avoiding errors and risks is a matter of particular concern.”

Thorsten Köble, Business analyst and trading desk, middle office and advisory desk staff member

In order to meet the new quality standards, all transactions are now reviewed: the majority automatically and electronically and the few remaining faxes manually. Omgeo CTM supports this process with exception-only-handling, i.e. the responsible staff member is only called upon to check those transactions where discrepancies are found in the automatic matching process.

Currently, only 3% of the transactions still have to be processed manually (where it is not yet possible to obtain electronic confirmation). However, for Metzler’s internal performance assessment, the absolute number of exceptions is decisive and there is still a room for improvement. The aim is to further reduce the number of manual transactions.

“Best of breed”

The entire order routing process is an efficient solution. The process is composed of four systems which, in Metzler’s view, constitute the best product on the market:

- a front office system developed by Metzler
- an externally developed compliance tool
- an order management system (OMS)
- the matching and settlement solution from Omgeo

In 2007, the order management system from Charles River was introduced. In the integration process, Metzler migrated Omgeo CTM from a message translation interface (MTI), to a direct call interface (DCI). This way, the data from the Charles River system is transmitted directly to Omgeo CTM without further intervention, i.e. staff members do not have to work on different systems.

The effort has paid off

After using systems developed by Metzler for its own needs for many years, users needed to become accustomed to the handling of the Omgeo solutions. Now that members of staff have familiarised themselves with the new systems, the level of satisfaction is extremely high. In conjunction with the new order routing system, the overall result is outstanding and fully satisfies Metzler’s requirements.

Establishing the first links to custodian banks via the Omgeo CTM settlement notification function was challenging. This function sends the settlement notification automatically to the custodian bank via SWIFT in MT541/543 format. The technical installation on Metzler’s side was straightforward, but time and effort was needed for the collaboration with the custodian banks. Therefore, Metzler sees a need to improve the cooperation with individual custodian banks. If the custodian bank has the corresponding infrastructure in place, the implementation is easy.

The automatic addition of the standing settlement and account instructions (SSI) from ALERT is particularly valuable for the transmission of settlement notifications. Orders can be enriched with the necessary standard information using data from the largest global database without manual intervention.

“Today, the results of Omgeo CTM in conjunction with our new order routing system are close to perfect.”
Thorsten Köble, business analyst and trading desk, middle office and advisory desk staff member

The changeover from a purely manual system to a genuine STP process was considerable. Nevertheless the effort has been more than worthwhile. Manual processing is definitely the more costly alternative – especially as custodian banks are now charging additional fees for processing faxes.

With the implementation of the new processes Metzler also wanted to achieve greater transparency. Omgeo Benchmarks enables Metzler to analyse both operational broker/dealer performance as well as internal processes. This way problem areas and risks can be identified with certainty. Metzler uses the information gained to raise optimisation potentials, while the few remaining manual processes stay under permanent scrutiny.

Successful cooperation

Today, Metzler is one of the technologically leading investment managers in Germany. However, this is no reason for the company to take a rest. Metzler is currently working on the next project with Omgeo: implementation of the enhanced settlement notification function for notifying up to 15 third parties, such as legal departments or settlement agents.

About Metzler

B. Metzler seel. Sohn & Co. KGaA, based in Frankfurt/Main, is the oldest German private bank with an unbroken tradition of family ownership. Established in 1674, it has evolved from a trading company and all-round bank to a modern investment bank and asset management institution. Metzler specialises in providing individual advice for institutional customers and demanding private clients in its core areas of business: Asset Management, Corporate Finance, Equities, Financial Markets and Private Banking.

Metzler Asset Management operations include portfolio management services for private and institutional clients. Metzler Asset Management has an international presence with subsidiaries and branches in Germany, the US, Ireland and Japan.

About Omgeo

At Omgeo, we are the operations experts, automating trade lifecycle events between investment managers, broker/dealers and custodian banks. We enable 6,500 clients and 80 technology partners in 52 countries around the world to seamlessly connect and interoperate. By automating and streamlining post-trade operations, we enable clients to accelerate the clearing and settlement of trades, and better manage and reduce their counterparty and credit risk. Our strength lies with our global community and our ability to adapt our solutions to enable clients to realize clear returns on their investment strategies, while responding to changing market and regulatory conditions. Across borders, asset classes, and trade lifecycles, Omgeo is the global standard for operational efficiency across the investment industry. Formed in 2001, Omgeo is jointly owned by the DTCC and Thomson Reuters. For more information, please visit www.omgeo.com.

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Americas

Omgeo LLC
22 Thomson Place
Boston, MA 02210
askomgeoamericas@omgeo.com

Europe

Omgeo Ltd
Aldgate House
33 Aldgate High Street
London EC3N 1DL
askomgeoeuropa@omgeo.com

Asia

Omgeo Pte Ltd
18 Science Park Drive
Singapore 118229
askomgeoasia@omgeo.com

Japan

Omgeo K. K.
Akasaka Park Building
5-2-20, Akasaka, Minato-ku
Tokyo 107-6119
askomgeojapan@omgeo.com

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