

Meeting the Challenge of Change

Andrea Marchesi, head of operations at Arca SGR, explains how Omgeo's solutions have enabled Arca SGR to grow its business, whilst keeping operational cost and risk to a minimum

The Background

In 1999, we entrusted Omgeo with the task of switching from manual trade processing to a fully automated solution. The aim was to eliminate operational bottlenecks and help our business to develop effectively and with increasing efficiency. Over the years, the drop in operating costs, the reduction in the associated risks and the results obtained have been so encouraging that we have decided to use the entire range of solutions offered by Omgeo.

The first step towards increasing operating efficiency was the adoption of *Omgeo OASYS GlobalSM*, which allows investment managers and broker/dealers to exchange trade information electronically, and *Omgeo ALERTSM*, which enables investment managers, broker/dealers and custodians to send and receive updated information on accounts and settlement instructions electronically.

We placed particular emphasis on the automation of orders, through the vertical integration of processes, and now use the *ALERT* system as a pre-requisite for the efficient management of settlement instructions.

The Challenge

Over recent years, the number of portfolios managed by Arca has grown significantly. Today the company is in daily contact with 16 custodian banks and more than 50 broker/dealers. On average, Arca processes 600 trades per day, making a total of over 140,000 per year, with peaks of 3,000 trades per day. Around 85% of these are equities transactions, and the remaining 15% involve bonds. We have set data communication standards via *OASYS Global* with all our brokers and for all markets: 45% of trades are with Europe, 45% from the US and 10% from Asia Pacific.

With *OASYS Global*, we have been able to grow our business while maintaining the same staffing level. Post-trade processing is now carried out by the same group of employees, who are dealing with more than twice as many portfolios as three years ago. The level of efficiency achieved and the increased control of processes has enabled us to keep the incidence of interest claims below 0.001% of all transactions made.

However, we wanted to be able to be scalable and grow our business further. Standardising the exchange of information with market counterparties and custodian banks is one of the key requirements for us to achieve higher levels of efficiency, to reduce operational risk and to take advantage of significant economies of scale. With growing trade volumes we realised it was time to look at new technology platforms to ensure that we automated the entire trade cycle, from execution through to settlement.

The Solution

With the implementation of *Omgeo Central Trade ManagerSM (Omgeo CTM)*, the central matching solution, we have equipped ourselves with a tool that can be rapidly integrated into the existing system architecture and rolled out in a short timeframe. What's more, it can be used immediately and is easy to access, thanks in part to its web-based interface.

Above all, *Omgeo CTM* is Arca SGR's unique connectivity platform for equities and bonds, enabling it to provide completely automated information flow between all the market counterparties, without the need for specific interfaces.

Specifically, *Omgeo CTM's* additional functionality offer us faster transaction times, reduced risk and greater efficiency, with a consequent reduction in operating costs.

Thanks to the use of *Omgeo CTM*, we have achieved complete automation of post-trade and pre-settlement processes, and is fully integrated with our custodian banks and market counterparties.

The Implementation

The project, which culminated in the adoption of an STP solution applied to the entire value chain, involved close collaboration between Arca and Omgeo on the methodology, as well as the implementation and roll-out of the applications.

The project was split into three main phases.

Phase one consisted of preliminary and preparatory work, with Arca and Omgeo conducting a qualitative assessment of market counterparties. This phase laid the foundations for the STP platform, whose pivotal element was Omgeo CTM, involved all parties communicating with Arca and provided almost complete automation of settlement, matching and allocation processes.

Laying the foundations of the project, therefore, involved the sharing of a common language, via an in-depth analysis of the data held by Arca, the alignment of these data and the harmonisation of counterparty parameters.

The project's second phase consisted of a portfolio reorganisation, as well as the staggered migration of brokers onto the new platform without restricting normal trading activity.

The third phase involved enhancing communication with custodian banks, partly through implementation of the *Omgeo CTM* settlement notification service that uses the SWIFT network.

This final phase standardised all communication with our banks, relating to both procedures and specifications. *Omgeo CTM* automatically transforms settlement notification messages into the standard Swift communication code without the need for manual intervention.

The Results

Today Arca SGR is one of the most efficient companies in the Italian market, with fewer than 0.5% of trades requiring intervention at settlement level, mainly due to incorrect counterparty delivery details. This can be seen in the exceptionally low rate of interest claims, which is less than ten per year.

Timescales have been reduced dramatically. Time-to-affirmation of counterparty instructions is little more than 30 minutes (including despatch to the custodian bank). Arca also provides same-day-affirmation in the USA and in Asia.

Moreover, Arca's relationships with its counterparties are much more fluid, and thanks to shared procedures, the company can improve the efficiency of all parties, based on objectively measurable parameters.

In this way, the back office has become a strategic decision-making centre, which can improve the efficiency of the whole company and positively affect its product quality.

The partnership with Omgeo was the starting point of our automation project, which, with the implementation of *Omgeo CTM*, has reached a level of STP able to encompass the entire value chain. Our relationship has been a close and profitable one, whose best aspects were the sharing of an effective methodology and the full support given by Omgeo, which is now one of our main technological guarantees of efficiency and transparency. Everything that passes through the Omgeo system is now automatic, and we have thus been able to free up staff to deal with exceptions and produce tangible added value. We are confident that this latest project has allowed us to exploit the full potential of *Omgeo CTM*, and not just the speed of the matching facility. The *Omgeo CTM* business model is the best on the market and we know we have chosen the market leader.

About ARCA SGR

Formed in October 1983 following the merger of 12 *banche popolari* (local co-operative banks), Arca SGR is today one of the biggest asset management companies in Italy, with total assets under management of EUR 35 billion (of which EUR 9 billion belongs to institutional clients) and around 650,000 clients.

Thanks to its links with more than 120 banks, giving access to some 8,000 branches, as well as to agreements with financial advisers and internet outlets, Arca SGR has one of the most extensive distribution networks in Italy. With assets of around EUR 560 million, Arca SGR is Italy's second biggest company in the open pension funds segment.

Arca has obtained the Certificate in Global Investment Performance Standards, and holds the prestigious AM2 rating, awarded by Fitch Ratings.