



**Not so long ago in a galaxy near you...  
The world is in chaos. Data integrity is under pressure.**

# **RECONCILIATION STRIKES BACK**

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**With insights from the summer 2020 webinar with Adox Research**

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## A YEAR LIKE NO OTHER IS TESTING THE FORCE OF RECONCILIATION

Capital markets have been volatile.

Trading volumes have ballooned.

Irregular payment activity is on the rise.

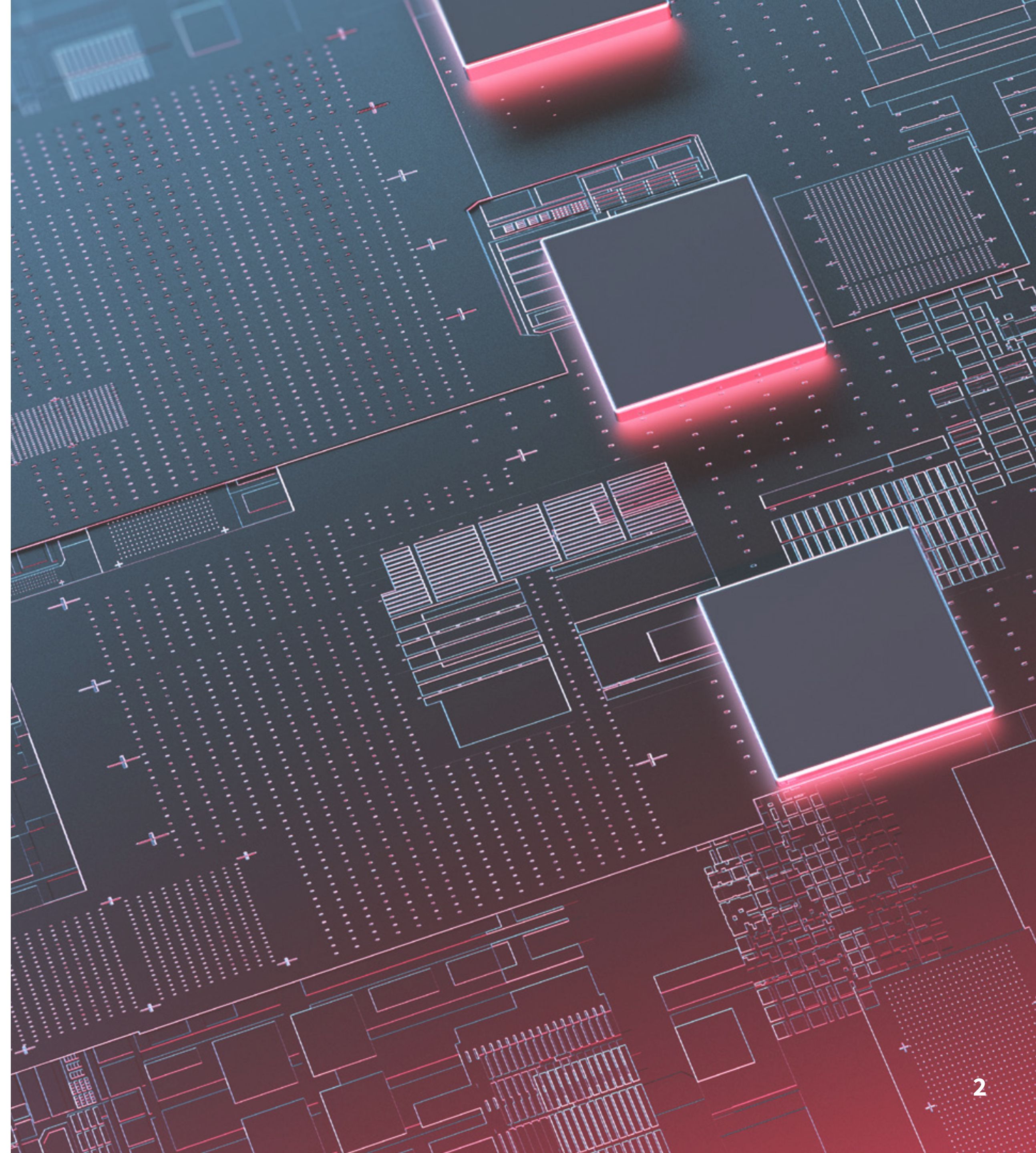
Working practices are in flux.

In June 2020, FIS formed a rebel alliance with Adox Research to carry out a global survey of capital markets firms.<sup>1</sup> Together, we resolved to learn what's changed for the reconciliation industry over the past six months.

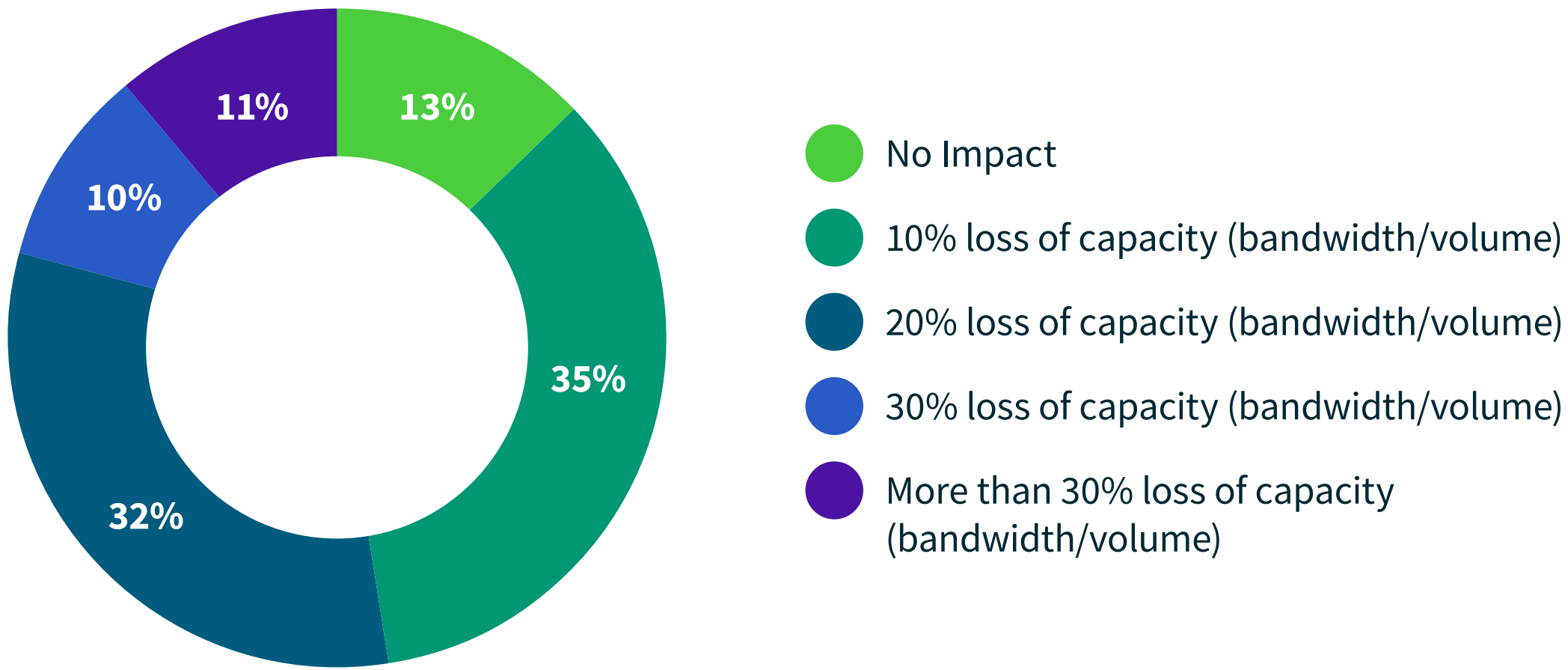
How has the global COVID-19 pandemic affected reconciliation's capacity to control risk? And what does the future hold for this critical business function, across not only the capital markets but also retail and commercial banks, insurance companies and non-financial corporations?

**The saga continues. Read on for international insights from the webinar where we explored our findings.**

<sup>1</sup> Adox Research surveyed 75 institutions, including investment and universal banks, asset managers, broker-dealers, custodians and asset servicers, in Australia, Canada, Germany, Hong Kong, the Netherlands, Singapore, Spain, the U.K. and the U.S.



**The impact of COVID-19 on capacity**



Numbers don't total 100 percent due to rounding.

Only 13 percent of firms report little or no impact from the pandemic on their ability to deliver and improve reconciliation processes. But with so many staff working from home, away from their team and conventional IT access, over half claim a 20 percent or more loss of bandwidth and productivity.

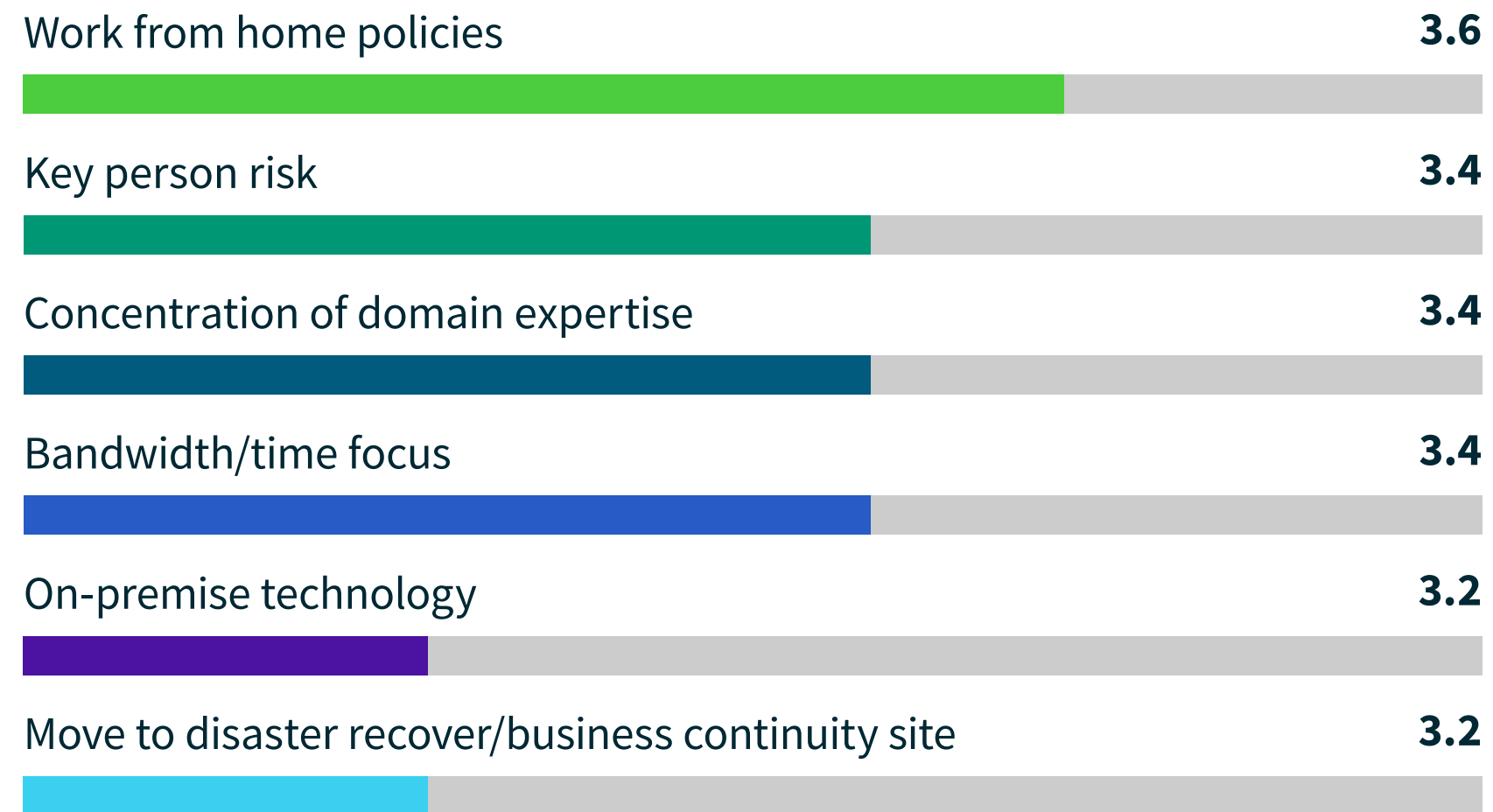
So, in the face of massive market volatility, rising trading volumes and large numbers of missed, delayed or partial payments, most organizations have found it challenging to reconcile transactions, positions, books and records as usual throughout the working day. And at the root of their short-term stress has been a lack of lightspeed automation when firms need it most.

**“Even in an automated environment, normal errors or degraded matching rules can reduce your capabilities if volumes increase suddenly. Higher trading volumes often mean more time trying to find and fix errors.”**

**RICHARD CHAPMAN**  
FIS

## DATA INTEGRITY JEDI ARE IN HIGH DEMAND

### The biggest obstacles to optimization



(on a scale of importance, where 1 = not important and 5 = very important)

For a mature function like reconciliation, it's critical to keep improving data quality and control. But with day-to-day activity under so much pressure, firms have been struggling to manage their long-term optimization projects too.

Working from home is again a big obstacle – but less because employees lose access to powerful systems; it's more about knowledge. When you're dealing with a specific asset class, type of exception or regional challenge, colleagues with the specialist expertise you need won't be at hand in the home office. All of which makes humans the biggest risk to mitigate.

The real challenge for most organizations has been finding the right information to perform tasks – information which resides in domain experts. But managed services from technology vendors can absorb that kind of key person risk with their own expertise.

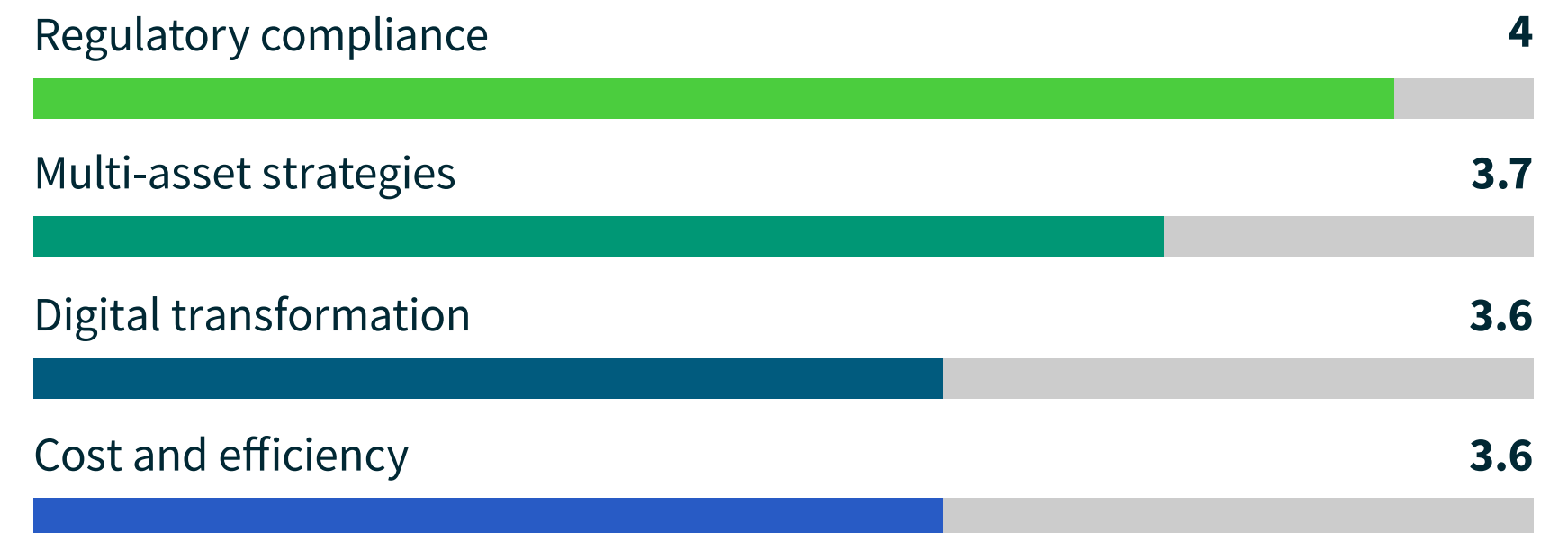
**“Human expertise can be hard to scale in a working-from-home scenario. Access to individuals and teams that have the right knowledge is compromised.”**

**GERT RAEVES**  
Adox Research

**“It’s no surprise to see regulatory compliance as the most important market trend for the reconciliation industry. Almost every regulation revolves around the demonstration of data integrity and control.”**

**RICHARD CHAPMAN**  
FIS

### The biggest drivers of investment in data quality



(on a scale of importance, where 1 = not important and 5 = very important)

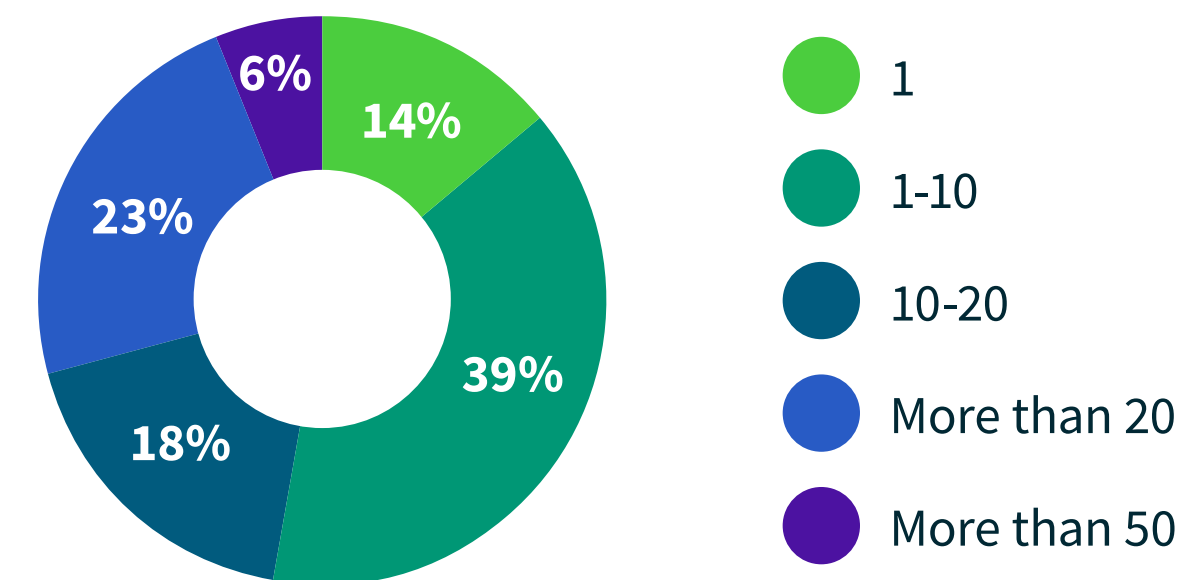
A number of persistent trends continue to compound the challenge of improving data quality and oversight through reconciliation.

Regulatory compliance is still by far the most important driver of investment for organizations, not least because they typically have to manage mandates across multiple jurisdictions. At the same time, multi-asset strategies are becoming more mainstream, while firms are operating an increasingly diverse set of digital delivery channels.

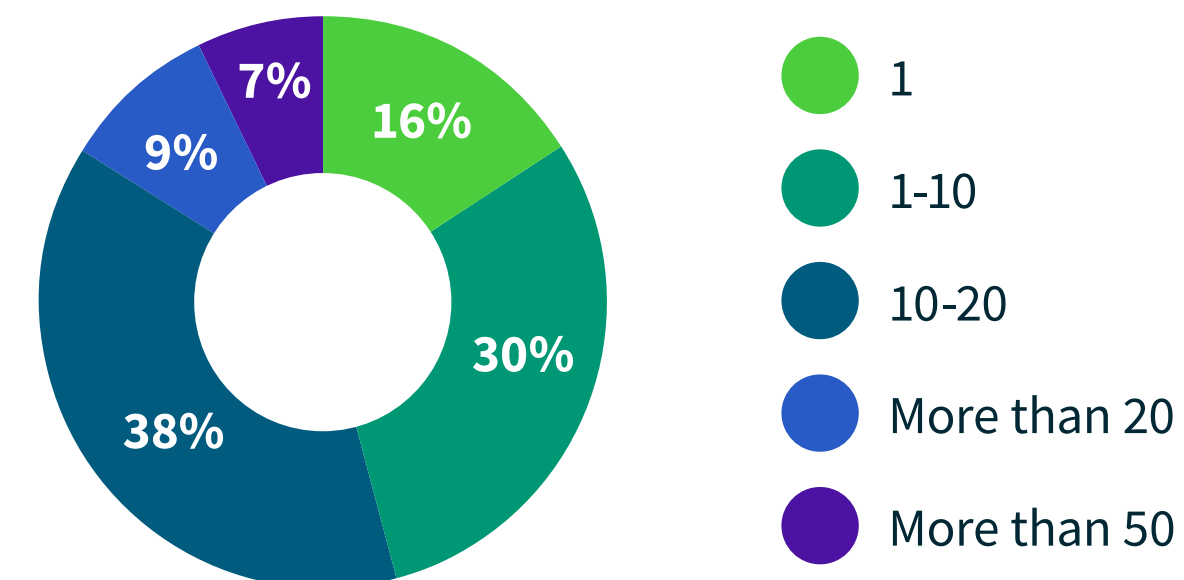
But as well as propagating the problems that reconciliation needs to solve, these “market-driven multipliers” also give the function new opportunities to raise its profile and assert its power within financial and corporate institutions alike.

## THE WAR ON FRAGMENTATION CONTINUES

The number of position or transaction records



The number of pricing and valuation sources



Wherever data quality is poor and automation levels are low, you're bound to find fragmented records. But the sheer quantity of storage systems and data sources in some firms can still surprise us.

Only a minority of organizations maintain a single source of data for positions or transactions and pricing and valuation; the majority juggle up to 10 or 20.

Fragmented data, it seems, is part and parcel of running a large modern business; the opportunity for firms is to own the process of controlling it. Those that can rise to the challenge will automatically set themselves apart from the competition.

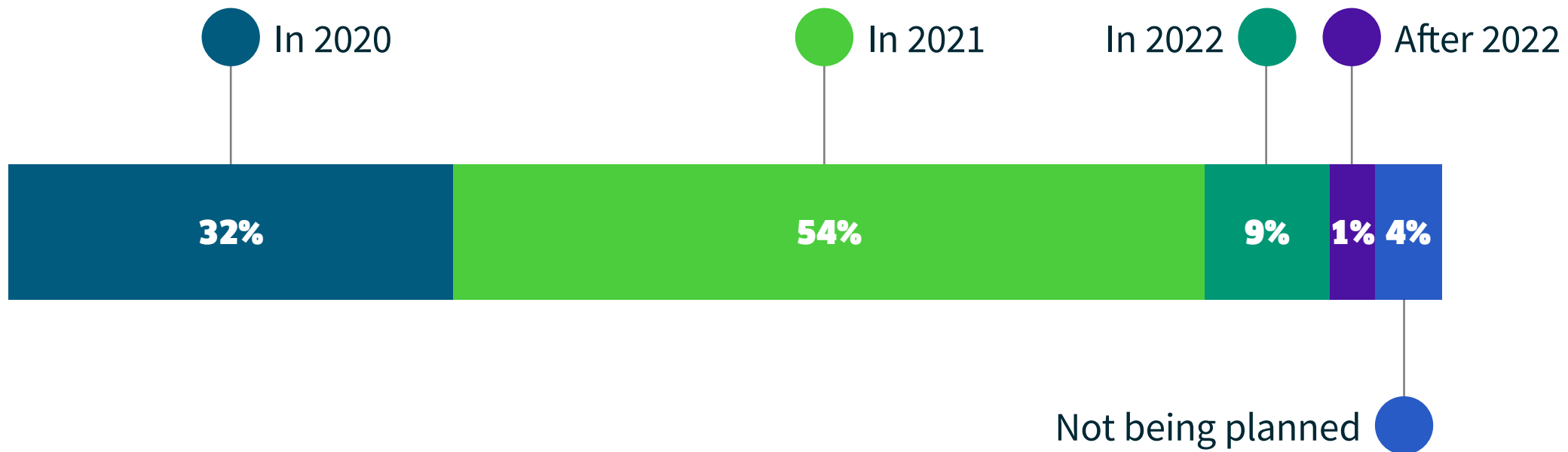
**“Until there are authoritative sources of critical financial data sets, the industry is not going to solve the problem of fragmented data. And that day is a very long way away.”**

**GERT RAEVES**  
Adox Research

## FUTURE PLANS ARE IN RETREAT



### The time horizons for new investments in reconciliation



**“Organizations are thinking much more tactically, so we’re seeing a lot of focus on upgrading or building new reconciliations and less on more strategic activity like business process reviews and process optimization or harmonization projects.”**

**RICHARD CHAPMAN**  
FIS

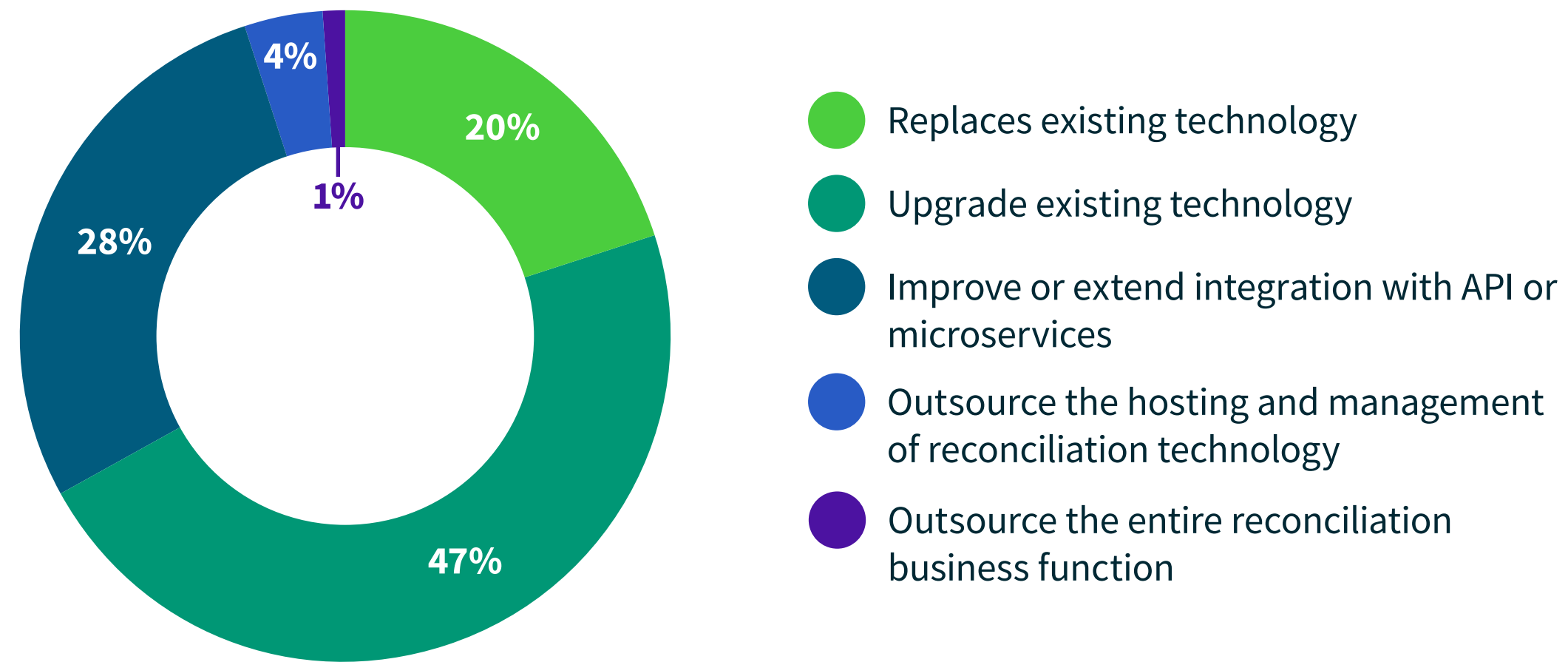
Despite the health crisis, the world hasn’t stopped turning. But when it comes to investing in reconciliation, the focus has narrowed to short-term priorities.

The good news is that projects that were already underway or budgeted for before the pandemic have largely continued. Even in these most challenging times, there’s still bandwidth to deliver on plans for the future – but only if they’ve been pre-agreed.

So, more than 85 percent of budgets are currently allocated to projects for the next 16 months. Beyond that, firms are watching and waiting before committing to further investment.

## THE FORCE OF RECONCILIATION AWAKENS

### The focus of plans to improve reconciliations



When organizations do invest in reconciliation, what shape do their improvements take?

In our survey, one in five respondents are still opting to simply replace their technology – which is most likely in-house or improvised applications. But the biggest majority of organizations, typically those that run a third-party solution, prefer to either upgrade their existing technology or extend and enhance it with APIs.

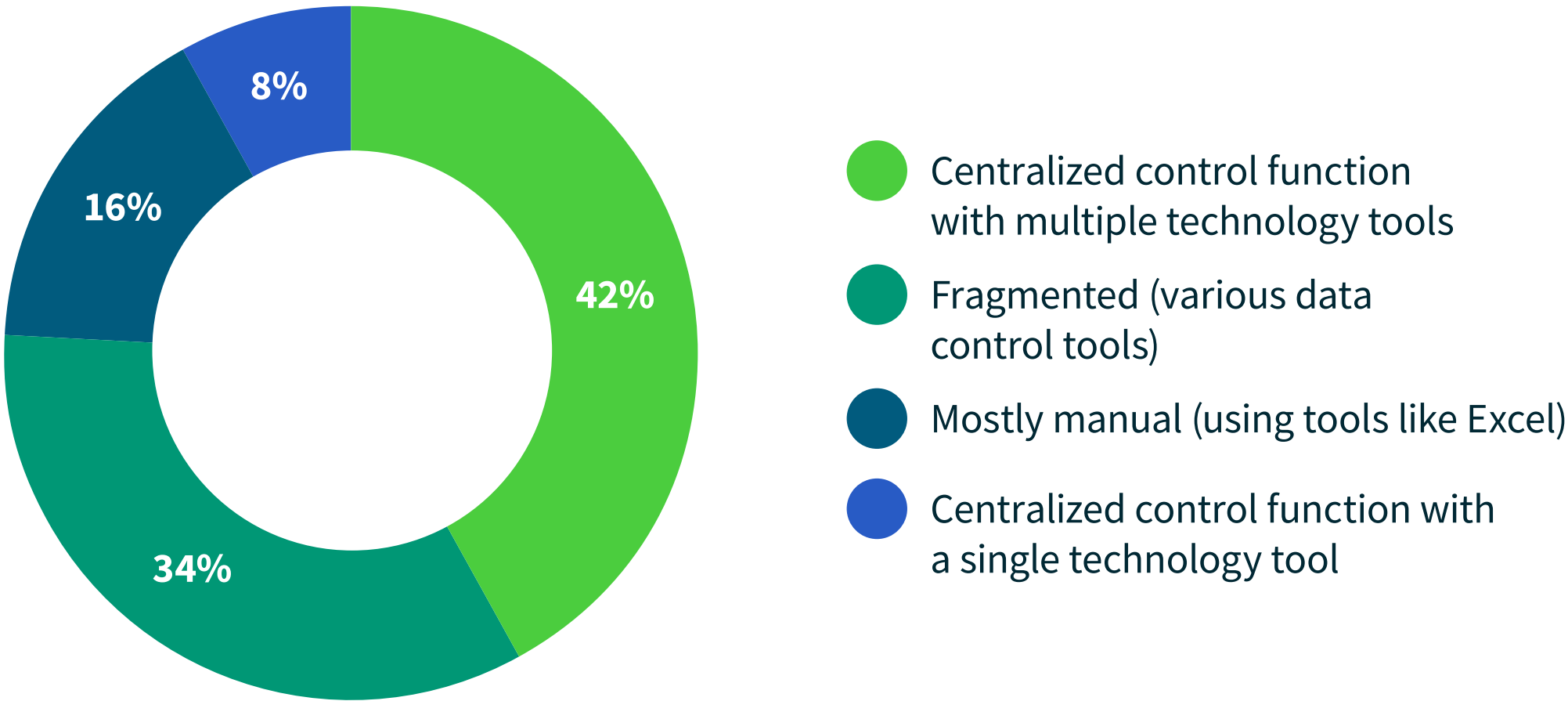
By getting more from their current reconciliation software, upgrading regularly to the latest version and connecting with new digital partners, firms can tap into powerful new capabilities like AI. This puts them in a stronger position to face down their greatest challenges, optimize automation and improve performance.

**“APIs offer further, exciting opportunities to enhance performance. Reconciliation is usually part of a much broader operational process, so it makes sense to provide reconciliation engines as a callable service for functions like confirmation matching and payment matching.”**

**RICHARD CHAPMAN**  
FIS



The dominant operational models



Reconciliation will never fulfill its full potential without total oversight and control of multiple processes. But first firms need the right operating model.

The ideal would be a centralized control function with a single technology tool – a nirvana that only 8 percent of firms have reached to date. Nevertheless, 42 percent are organizationally on the right track, with multiple reconciliation tools but crucially only one center of control.

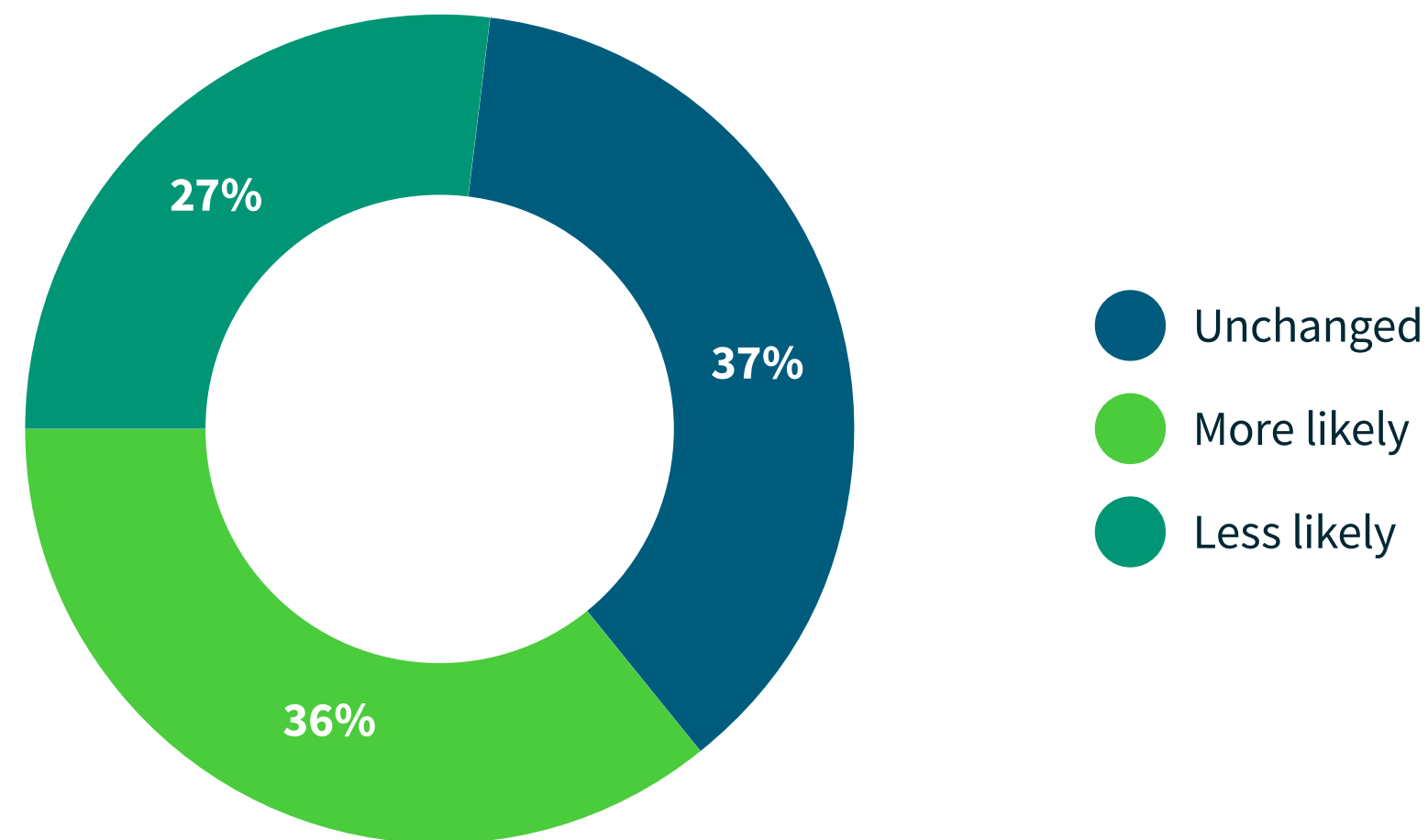
These firms may operate a fragmented technology environment. But with a center of excellence for control, they can gain complete coverage of all their reconciliations – both automated and manual – and track them from one place. Then, over time, they can increase their depth of automation and manage more of the most manually painful processes with a single tool.

**“If you start trying to automate every single reconciliation with a single tool and team, it will take years. It’s more important to be able to track the execution of your processes with a centralized control function”**

**RICHARD CHAPMAN**  
FIS

## MODERN OPERATING MODELS OFFER A NEW HOPE

### The willingness to outsource



Managed services for reconciliation offer firms an alternative operating model for defeating the challenges of today and tomorrow. From reducing IT headaches and key person risk to increasing overall efficiency and performance, the managed service can help solve many of the problems that 2020 has thrown at the reconciliation function.

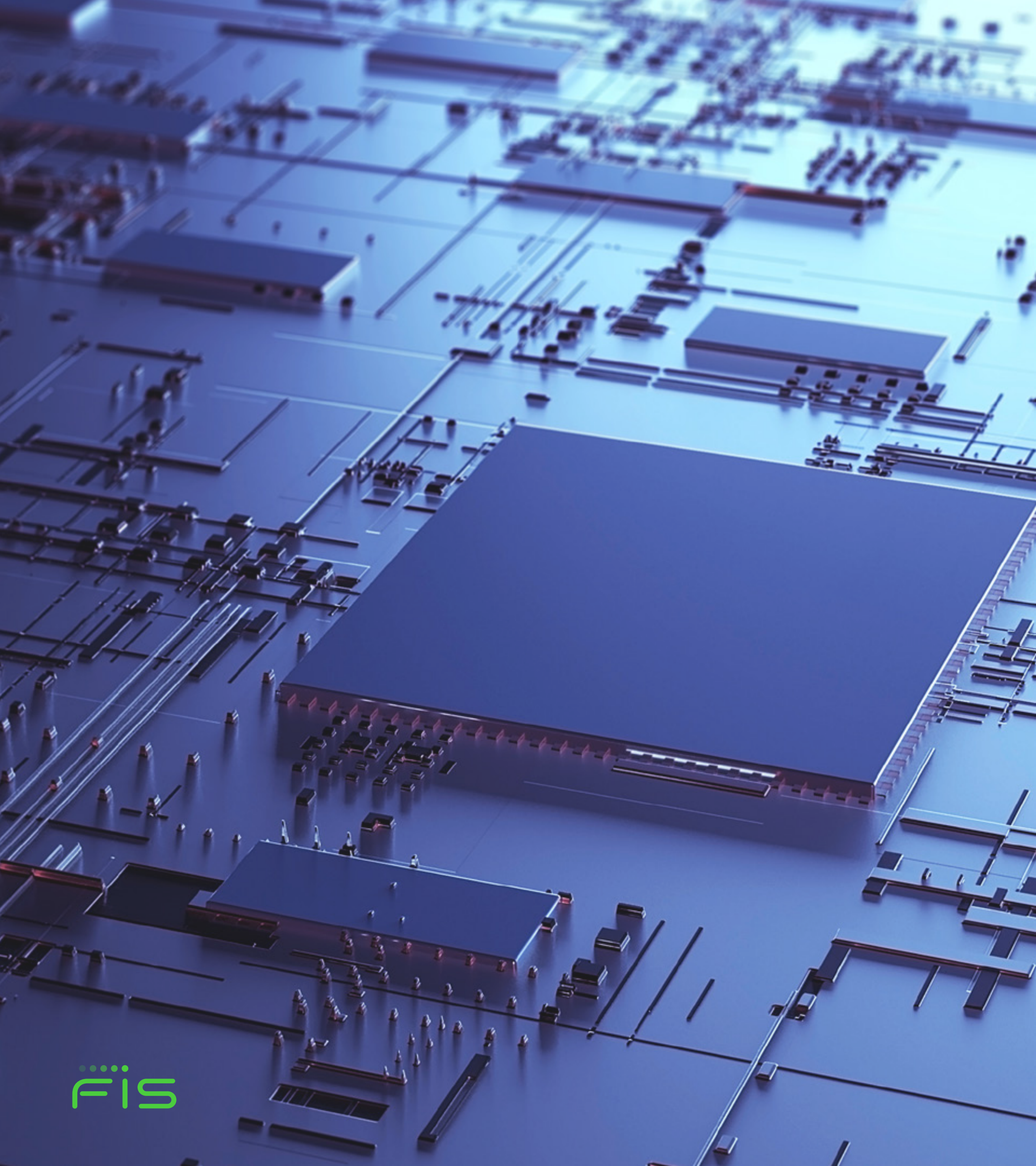
In the past, the fragmentation of reconciliation environments may have discouraged firms from moving to an outsourced model. But as more organizations centralize control of their processes, they are making it easier to hand over the day-to-day management of the reconciliation function to an expert external provider.

The signs are that attitudes are slowly moving in the right direction, with well over a third of firms now more likely to outsource their end-to-end reconciliation operations and IT. For the function to win out, it must offload its internal burden.

Around 70 percent of FIS' new clients now choose a managed reconciliation service. If a firm is looking for a new reconciliation solution, adopting technology that's fully managed is actually a far smaller, more seamless change.

**“It’s hard to think of any mid- to top-tier organization these days that doesn’t have a cloud-first or cloud migration strategy.”**

**RICHARD CHAPMAN**  
FIS



## **Become a reconciliation rebel. Give YOUR function a fighting chance.**

### **Target today – make incremental improvements**

Expand usage of your reconciliation solution by getting maximum value from technology, creating best practice standards and aiming for 100 percent coverage.

### **Combat change with agility – do more with less**

Drive efficiency with improved matching rates, automated exception handling and accounts and positions proofing.

### **Mobilize for the future – build centers of excellence**

Build a long-term strategy by creating an internal reconciliation service center, streamlining integration and considering managed services.

## **Are you ready to help reconciliation strike back? May the force be with you.**

Email [getinfo@fisglobal.com](mailto:getinfo@fisglobal.com) to see how we're helping our clients take on the dark side of data integrity with an optimal web experience, AI-enabled rules and workflow and a fully managed, expert reconciliation service.

## About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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