



Collateral Management: Unlocking the potential in collateral

Abstract

A Transactional Bank specialised in securities services sought a better understanding of the impact of recent market and regulatory dynamics in the collateral management business and in liquidity management, and wanted to test key working assumptions in the market. Avantage Reply was engaged to interview representative banks and use other sources of research, which resulted in the production of a paper the client intends to use in public presentations and in articulating their business proposition.

THE CLIENT

The client is a Transactional Bank specialised in securities services (post trade) and also known as an International Central Securities Depository ("ICSD").

THE CHALLENGE

The client, an important player in the securities services business, wanted a better understanding of the impact of recent market and regulatory dynamics in the collateral management business and more broadly in liquidity management in order to articulate a successful marketing and product development strategy.

The key working assumptions the client wanted tested in the market were:

- Existing high level of fragmentation of the collateral management market causes substantial inefficiencies (with associated direct costs and opportunity costs). That fragmentation is both external, i.e. related to the market organisation and internal, i.e. specific to each institution.
- At a time of increased demand for liquidity (driven by regulatory and market changes), collateral becomes an extremely valuable resource that facilitates access to better (secured) funding (more available, cheaper and eventually longer term). Optimal collateral management can also play an important role in managing scarce capital resources.

To perform the market analysis, the client engaged Avantage Reply and another reputable consultancy firm to interview 16 representative banks (combined total assets of approximately Euro 14 trillion, a variety of business models ranging from retail banks to broker dealers and universal banks and diversity in terms of geographic footprint). In addition Avantage Reply used other sources of research (internal and external) to complement the exercise and put feedback from interviewees into context. This exercise resulted in the production of a thought leadership paper the client intends to use in public presentations and in articulating their client business proposition on the subject of collateral and liquidity management.

APPROACH AND SOLUTION

Avantage Reply designed and conducted the 16 face to face interviews (in 6 countries) addressing four main components:

- Setting the scene; how liquidity became a critical issue since the 2007/8 crisis;
- Current Collateral Management practices, organisational models and potential inefficiencies;
- Current and future trends in terms of regulatory environment and evolving market dynamics; and
- Best practices and responses to the inefficiencies.

In order to promote the openness of the feedback, Avantage Reply was engaged to conduct the interviews (with full disclosure of the client's name but without its presence) preserving full confidentiality. All responses were aggregated and anonymised.

Throughout the entire exercise Avantage Reply kept a close engagement with the client's executive board to monitor progress and steer the course of work.

RESULTS AND BENEFITS

- The client reaffirmed itself as a promoter of thought leadership in the industry, enhancing its reputation and name;
- The detailed feedback will constitute the core of a revamped marketing strategy around collateral and liquidity management products;
- The proprietary knowledge will work as a differentiating factor from the competition; and
- This exercise strengthened the commercial relationship between the client and the 16 institutions interviewed.

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