EXECUTIVE BRIEF

Build versus buy: Key considerations to assess real-time liquidity management software

LIQUIDITY MANAGEMENT

Compelling reasons not to build an in-house intraday liquidity tool

In the scope of liquidity risk, especially intraday liquidity management, regulators have turned their attention to the quality of the technology and IT systems organizations use to manage and monitor their activities. Banks, financial services, and global corporates must demonstrate the strategies, policies, processes, and systems they use to manage and monitor these related activities. Should organizations build in-house intraday liquidity tools or purchase vendor solutions? Your organization must decide what works best for you, but today’s leading organizations are relying on commercial market solutions to ensure satisfactory levels of liquidity buffers and take advantage of other organizational benefits.

1. Cost

Building an intraday liquidity tool in-house can have substantial costs. Tier 1 organizations that have undertaken a build of this type have spent well over $100 million USD. A much less-expensive alternative would be to purchase an existing intraday liquidity solution. As technological advancements continue to develop, finding a solution that targets specific challenges is becoming much easier. When deciding between an in-house and a vendor solution, cost considerations should be given across several key areas.

Development costs

Developing an in-house solution yourself can be an extremely costly exercise. Many software firms have invested millions of dollars in researching and developing a solution, and then honing that solution so it delivers the best value for customers. Matching this effort would require a significant financial outlay from your organization, not to mention the time it would take to arrive at a completed solution.

When building in-house, there's little flexibility when it comes to your budget. Quite often the budget put aside for an in-house solution can quickly get out of control and escalate as factors that haven't been considered arise. However, a software firm can structure a financial package that can help you meet your business case and cost objectives. An experienced solution provider would ensure that all costs are considered and calculated.

The liquidity tool would need regulatory reporting, funding and forecasting, intraday reconciliations, collateral management, and more. Maintaining consistency over time with business and technology subject matter experts (SMEs) who are focused on these efforts could create sizable staff resourcing costs for years to come. An in-house intraday liquidity build would take huge amounts of your time and attention. Purchasing a software solution versus undertaking an in-house project, however, allows you to stay focused on the mandatory day-to-day business efforts that can only be done by your internal resources.

Specialized database: To achieve the level of real-time, liquidity monitoring performance that's required, a solution must have a hybrid transactional/analytic processing (HTAP) database. An HTAP database is capable of consuming vast quantities of data while performing complex analytic processing in real time. More traditional technologies aren't capable of meeting the performance needs of most institutions—especially major global organizations. Purchasing an HTAP database independently can be very expensive while vendor solutions can provide this at scale much less expensively.

Organizational costs

To build a solution in-house would require a large development team with the knowledge and experience to define business requirements and address key functional design points. A software vendor will have a full team in place, all of whom have the necessary skills and are actively working on software R&D. Building such a team in-house would be a huge expense to you, plus finding the right people with the right skillset would be a very time-consuming process.

Internal liquidity expertise: Banks, financial services, and global corporates are unlikely to have sufficiently skilled SMEs on staff who can design the tool and provide the ongoing necessary enhancements. Having these skills on-hand would be rare or expensive. Once a base liquidity tool is developed and deployed, a host of other modules would also be required to align with regulatory expectations in the application.

2. Time

How long will it take to complete the project? How quickly can your treasury department start seeing the business value and deliver the return on investment (ROI)? These are major factor to consider when deciding whether to buy or build.

When building an in-house solution, the process must start with a requirements definition phase followed by design and build. This process can be elongated if the in-house team struggles to recruit the right resources that have experience with the, typically new, requirements. Eventually implementation follows. A buy approach begins with implementation, which can save enormous amounts of time, often years, compared to an in-house build.

Evaluate time to value

Realizing business value quickly from a software investment is very important to virtually all companies. Software that is designed to meet your specific needs can get you there easier and faster. A top-level intraday liquidity solution should allow you to monitor all key accounts in real time, deliver regulatory reporting, and deploy in about 90 days or less.

Typical in-house projects often spend the first 6–12 months building teams, pulling in SMEs, defining requirements, and kicking off design processes before the actual development even begins.

An in-house build is also more likely to run into delays as internal resources get pulled into other initiatives and projects. If your organization hasn't fully committed to designating business and IT experts to the project, you'll continually have to re-request resources throughout the development cycle and for needed updates.

When considering reasonably high buffers, the cost of implementation delays could be more than $1 million USD per month. Even if the internal cost of a build and the external cost to buy are the same (though, very unlikely), the internal project's continued costs from delays will ultimately render it a far more expensive option. All considered, an in-house build is likely to take much longer than a purchased solution to provide ROI.

With the buy approach, a software vendor will already have the resources in place. By applying a phased approach, a vendor can get the foundations of a solution up and running quickly. That means ROI can be seen almost immediately. Opting for an in-house approach means that the payback period is much longer than the buy approach. Every month that build takes longer than buy is one month of business case value that is lost forever.

Ensuring the technology, functionality, performance, and data integration requirements have been addressed are enormous challenges that an in-house solution would need to resolve very quickly.

3. Success

If opting for the build approach, how can you be sure that an unproven in-house solution will work the first time?

Many firms have tried to build a real-time liquidity management solution but have failed to build something that offers the same level of functionality as an established solution that performs at the required volumes. Implementing a tried and tested solution, already operating live in global organizations, by an experienced software vendor is by far the lowest risk option.

Weigh success factors

What happens if an in-house tool doesn't pass approval by regulators, or it doesn't perform because of errant technology choices and decisions? The cost of rework could easily double the cost of the project.

You must ask: What's the cost of failure? If the in-house tool doesn't meet regulators' expectations, the regulators could increase the value of the buffers your organization is required to hold. As the buffers increase, the lost income from taking this money out of its earning power could easily overshadow the costs of the project. That lost income could easily be millions of dollars per year.

Selecting a solution built by a software firm gives you access to their vast experience of working with treasury teams of all sizes and their understanding of the challenges and pain points that you must address. Similarly, having access to this experience in a long-term supplier relationship guarantees long-term training and support from software experts, unlike the build approach where often the project team and their hard-won knowledge must move on to other projects.

4. Regulator approved

One of the reasons for needing a real-time liquidity management solution is to ensure regulatory compliance. Whether selecting a vendor solution or building one in-house, regulators must approve your chosen software solution.

Ongoing regulatory implications: Once a tool is built, it still needs to have new updates designed and implemented that align with regulatory changes, which are a requirement for every geographical location where a financial institution does business. Keeping up with agency updates on a global basis, such as those from Canada's Office of the Superintendent of Financial Institutions (OSFI), the US Federal Reserve Board, and the UK's Prudential Regulation Authority (PRA), could easily cost more on an annual basis than the base implementation of an in-house tool.

5. Future-proof solution

Buy or build, whatever the decision, you will need to make sure that your solution is fit for years to come. Will it help future-proof your organization?

Most large organizations are constrained by legacy technologies that aren't fit for real-time challenges. Building real-time solutions is complex and typically requires the type of technology that is cloud native. Organizations often build on existing legacy solutions and technology and just add cost and complexity to the existing IT "hairball." Software companies that focus on real-time treasury solutions will typically spend high R&D percentages on future capabilities and can shape future requirements to suit you at only a fraction of the cost.

Choose innovation

Not all software is created equal. Leading intraday liquidity management software solutions should be flexible, innovative, and agile. They should be able to evolve to deliver additional requirements over time to match your changing needs. Choosing the right solution is about more than just meeting current requirements. In today's highly competitive market, you can gain a better competitive edge with solutions that also incorporate the following elements.

Data science and analytics: Advanced analytic capabilities help make sense of all the data available and assist in driving critical decision-making. A smart design will be able to predict what analytics users need. The solution should also support iterative, user-configurable reporting and analytics. A solution that requires IT's assistance every time there are application or reporting changes causes unnecessary delays and can even hinder your business from functioning. The ideal solution takes IT dependence out of the mix and puts a powerful solution right in your hands.

Version control, publishing, and promoting of application changes: Updates, enhancements, and regulatory changes are an expected and accepted part of running a business application. The right solution should be designed for change implementation in a way that doesn't interfere with running your business. You shouldn't need long implementation or testing windows. Fixes or updates should not break the functionality of something else.

Configuration versus customizations: A solution that's inherently designed for customization via code supports building only what's explicitly needed now. A solution that's designed for configuration changes, however, has the built-in ability to offer up multiple options for how a decision point in the solution will function. Individual customizations might be easier to implement, but this approach typically tackles only a single problem at a time; and each customization renders the solution that much more difficult to change in the future. Configurable solutions are typically designed to support future changes, while ensuring compatibility with existing functionality.

Building for success

Building an in-house intraday liquidity tool can be fraught with headaches. Before deciding which direction to go, banks, financial services, and global corporates subject to intraday regulations should consider the prospective costs, how long it will take to realize value, and the potential for success. Vendor solutions will cost less, provide quicker time to value, and be much more likely to work as needed. Additionally, implementation of vendor solutions will typically be faster and make it much easier to support your future needs. Vendor intraday liquidity solutions that you buy make it easier for you to implement the technology you need to comply and thrive.

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