

Operations comment: Pirum

Rupert Perry of Pirum Systems outlines the significant cost and performance benefits of an automated billing process.

Efficient Billing Processing

The processing of securities lending bills is a core function of any securities lending operations department.

Ensuring bills can be paid on a timely basis (typically within 10 working days of the end of the month) is key to ensuring the smooth running of the business and to avoid any unnecessary and unexpected funding costs.

Sending The Bill

Until recently, most securities lending bills were delivered in paper form. All of the bills were printed, then carefully separated into the correct pages per counterparty and finally delivered to the intended recipient, either by hand or by courier. In some cases, a single bill could run to more than 5,000 pages, requiring more than two boxes of paper for each such bill! A paper-based billing delivery process is time consuming, error-prone, inefficient (by modern standards) and hence expensive.

In July 2009, ISLA issued a new best practice statement recommending that securities lending bills are sent in electronic formats either via vendor platforms or else directly to recipients using ISLA's own new standardised electronic billing format, as detailed in the best practice statement. Bills sent in a standardised electronic format are not only easier to be handled and sent, they are also easier for the recipient to process in that they can be processed by automated reconciliation tools or easily searched / filtered and manipulated by the recipient.

Bills sent via vendor platforms have a number of additional benefits – Firstly, little or no technical work is required for participants already using an industry vendor, because the same data feeds that are used for billing reconciliations can be re-used for the

billing delivery service.

Secondly, by configuring automatic bill delivery to pre-defined recipients, a more efficient and controlled process is put in place which minimises the manual effort required from the billing team. It also significantly reduces the risk of sending a bill to the wrong recipient - an easy mistake to make when bills are instead sent manually via e-mail, fax or post.

Paying The Right Amount

When a bill payer receives a billing statement, the first step is to check whether the amount requested for payment can be agreed immediately or not. This is done by comparing the amount the payer expects to pay, which is calculated using the payer's own statement produced from their own books and records with the amount on the bill that has been received. Where the amount agrees, payment can be made immediately and these bills are usually paid on time.

Where borrowers and lenders have been actively using automated contract compare on a daily basis, any differences between both parties books and records will usually have been fixed over the course of the previous month. While this is generally true, some contract compare differences automatically fix themselves without intervention (eg, a timing difference relating to when a trade settles) while others may never have shown up on contract compare at all (eg, a back dated rate change applied by each party on different days). These differences will still show up as month end billing breaks, despite not appearing on contract compare. Where contract compare has not been actively employed, there will be differences on the month-end bills which require reconciliation and further investigation.

While it is possible to reconcile a billing statement by hand, very few bills are actually reconciled this way because of the amount of manual effort required. Most bills are now reconciled via an industry standard vendor platform which automatically compares

the billing accruals for every trade each day. This type of reconciliation will automatically identify the specific trades and dates that are ultimately causing the billing total to disagree. Users from both parties can then focus their efforts on investigating the identified discrepancies to determine who has the correct information.

An automated billing reconciliation tool not only identifies the discrepancies, it also lets users prioritise their investigative work by focusing on the largest billing differences first and to communicate what needs to be done to fix each problem to the counterparty. This enables both parties to work through all important differences and agree the final bill to be paid.

Conclusion

Billing automation, both for sending bills and reconciling them electronically, is the key to timely and efficient processing of bill payments. Billing teams have an understandable tendency to prioritise the processing of bills that are received and reconciled in electronic format, because they are so much easier to process than bills that are received in a non-structured format which cannot be reconciled automatically.

When bills are sent and reconciled by hand, they are often paid late if the amount requested cannot be immediately agreed, because the manual reconciliation process is so time consuming. ✨

Rupert Perry is director of Pirum Systems.

