Custom-built or off-the-shelf monitoring solutions?

Or is there another way?

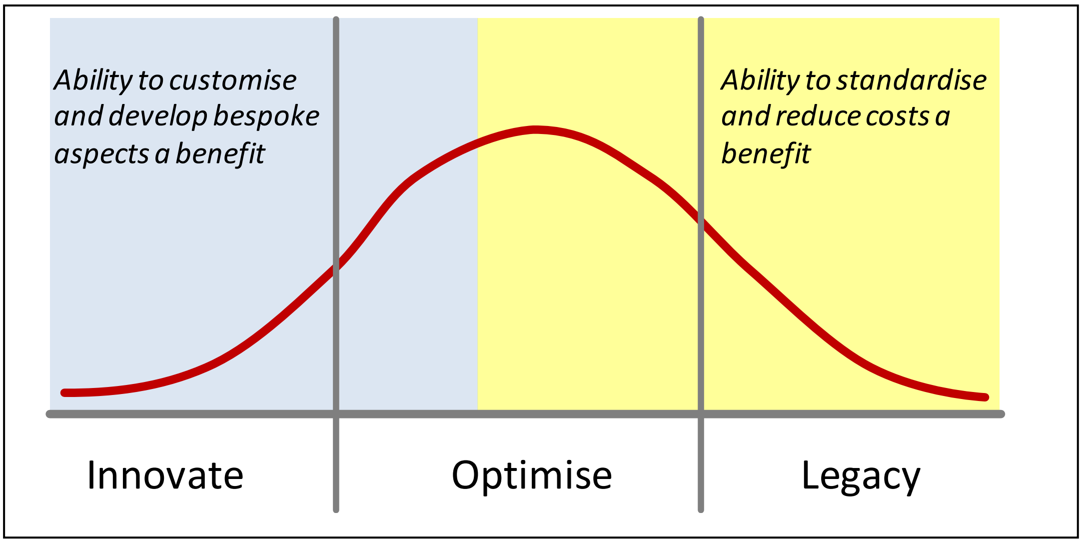
For watchers of the world of software applications, the pendulum swing of preference from 'build it yourself' to 'buy it off-the-shelf' and back again is quite familiar and the arguments for and against well rehearsed. In Capital Markets, there has historically been a slightly greater bias towards 'build it yourself' than has been common in other sectors and there are several reasons for that.

Capital Markets firms are often quite individual and subtly different in their makeup, size and specialisations. The pain of having to fit around the standardised model that package software often requires can be considerable, reducing the efficiency and overall success of the solution or demanding expensive bespoke changes.

And businesses are in a constant state of change. Bitter experience of packaged software has often been one of delays while vendors produce an updated version of their package that can support the required change or trying to force new business streams into existing functionality and process flows with very mixed results. Little wonder that most firms have ended up with a vast conglomeration of different systems and bespoke bits and pieces covering the gaps and holding it all together.

At the innovative leading edge of new products and markets, however speed and agility are prized. Anything related to the front office may have the potential to provide an edge and offer an opportunity to benefit from being early to market or by deploying some unique and specific IP – all arguments in favour of 'build it yourself'.

However, no institution has been immune from the need to drive down and keep down costs and bespoke development and maintenance is rarely the cheapest option. More experienced and cynical CTOs are used to questioning whether bespoke and top class functionality is actually what is required to deliver a practical working solution or whether a more vanilla third party package actually ticks more of the right boxes in terms of not using scarce internal resources on things that don't provide competitive advantages and helping to contain total cost of ownership. The cost benefits of rationalisation and the use of more vanilla software packages have swept the board in supporting functions like Finance and HR. Processing the more vanilla aspects of trading has also largely become the domain of package solutions. 'Build it yourself' is now confined to this innovative leading edge, particularly around latency and high frequency trading or new markets. It seems then that we can represent the buy/build argument on a simple maturity curve, as illustrated.



According to industry watchers, one of the major areas of technology spend for 2011 (and in all likelihood 2012 and 2013 as well) will be Compliance and particularly Risk and Monitoring systems.

The Tabb Group's Dynamic Surveillance report in February 2011, predicted that, on the heels of new financial regulation, U.S. and European brokers will spend $206 million this year on new surveillance programs. According to the report's author, Miranda Mizen, spending will grow at a CAGR (compound annual growth rate) of 14% to $268 million in 2013. To comply, spending on ***external*** solutions is expected to grow from 28% in 2011 to 35% of total expenditure in 2013 as brokers leverage vendors' products to fit tight budgets and meet short timelines.

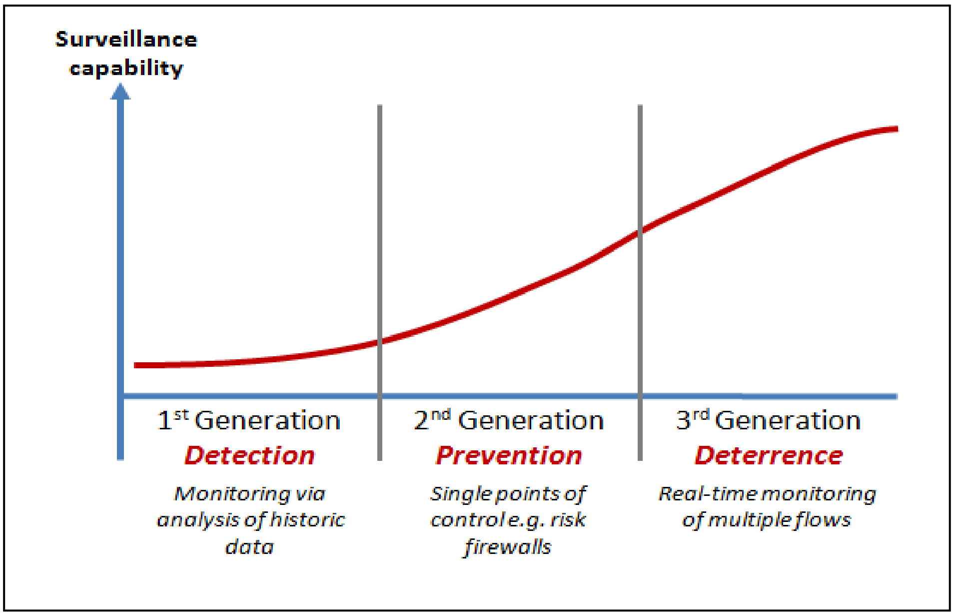
Other analysts broadly concur, predicting at least 25% of technology spending being focused on compliance and nearly 60% on vendor solutions. Hiring of developers is expected to reduce although, hiring of business analysts and user experience engineers will rise.

So it seems clear then, we can conclude that packaged monitoring applications will be the solutions of choice. But wait a moment - it is worth stopping to reconsider that maturity curve and identify where monitoring sits on the curve.

The stampede of new regulation around the world clearly suggests that the area is subject to an enormous amount of change and no-one seriously expects that to settle down to a more mature and stable environment anytime soon. And the products and trading landscape is changing too.

Commentators are beginning to describe the need for a step change in monitoring and surveillance to keep up with changing markets. Even the nature of monitoring itself is being thought of differently now with the emerging concept of it being made up of three components, Detection, Prevention and Deterrence, as described in the Dynamic

Surveillance report. The latest generation of surveillance and monitoring solutions that are just beginning to emerge are an advanced hybrid of previous generations, combining historic analysis, points of control and correlated real-time views across many different flows of trading information.



All these signs suggest that monitoring is at the agile early part of a maturity curve, not at the mid-to-back point normally associated with package software. And yet clearly building your own would seem to be a time-consuming, expensive, re-inventing the wheel-type exercise. In all honesty, the mix of technical and business know-how required to build this type of system is not widely available and most compliance and monitoring teams have not historically had this type of dedicated IT resource available to them.

We seem to need to find an answer that gives us the best of both worlds. The cost and risk benefits to be had from taking a third party solution, combined with the flexibility and agility to catch up with a rapidly changing business and regulatory problem. So perhaps in the old debate between buy and build there is a new face on the block – **rapid customisation.**

This article was written by Dave Tolladay, Director of Alerts4 Financial Markets and originally appeared on the Tabb Group forum in 2011.