Fireside Friday with…

EquiLend's Brian Lamb

EquiLend's CEO, Brian Lamb, discusses the inception of the EquiLend on its 20th anniversary, along with talking innovation in securities finance, industry consolidation and what the future holds in the space.

Twenty years ago, 10 of the world's largest banks joined together to optimise efficiencies in the securities finance industry through the creation of EquiLend, with a view to develop a standardised and centralised global platform for trading and post-trade services. Two decades on and after countless milestones, regulations and new products, EquiLend's CEO, Brian Lamb, talks through the inception of the organisation along with discussing innovation in securities finance, industry consolidation and what the future holds in the space.

Jonathan Watkins: It's EquiLend's 20th anniversary this year, could you tell us about the genesis of the company and why it was launched?

Brian Lamb: Part of the impetus for the creation of EquiLend back in 2001 was the dotcom boom. I was working at Barclays Global Investors out in California at the time and I really saw first-hand a lot of the interesting dynamics, particularly as people left San Francisco and flocked to Silicon Valley, just an hour south.

At that time there were a lot of disruptors – or innovators – a lot of different dynamics and our clients were calling and asking us how we were creating value for them in the new dotcom environment. That led to a lot of different types of initiatives, and EquiLend was one of them. The other factor at the time was that the securities lending industry was fairly underserviced by the vendors in the space. I think that's fair to say as the vendors prospered at the expense of the industry. Some of that still exists today, which is a bit sad 20 years on, but that's the legacy we live with. But in that environment, it was really ripe for innovation and securities lending.

There were a lot of different ideas and initiatives that cropped up at the time and there were a lot of companies that tried to create solutions in that space and most of them didn't last long, quite frankly. But we were fortunate and it's helpful to have 10 of the largest banks in the world really supporting the initiatives. Those 10 banks created EquiLend and they still own 100% of the company. They created this solution, not just for themselves, but for the entire industry because if you think about what's best for them, it is if their entire process with all of their counterparts and all of their clients is automated.

At the beginning each firm was asked

for five full-time people – a trader, an ops person, an IT person, a lawyer and then somebody just to organise that individual group for that firm. So, five from each firm, 10 firms, and 50 people. So, I like to say I'm one of the 50 inventors of EquiLend.

JW: How have you innovated and automated over those 20 years to keep ahead of the competition and those who you referenced "didn't last long"?

BL: Securities finance is mostly an over-the-counter market, and with any over-the-counter market, the number of variables are limitless because everybody has their own proprietary solution. When we came together, those 10 firms, we had to agree on standards not just for the 10 firms, but for the industry. It was revolutionary if you think about it. And thank goodness we succeeded and created a fully automated solution for trading of securities finance.

We created algorithms 20 years ago – we had algorithms, AI and machine learning 20 years ago, before people used those labels. So, in some respects the markets caught up to us. That is how I would think of it. We've been fortunate because we've succeeded in getting almost the entire market to participate as members or clients of our consortium.

At the end of the day, we're an application service provider. We're like Facebook. We're open for business 24/7 and we always have been. We don't rest on our laurels; we continue to automate and innovate.

We have set very high targets for ourselves, and we aim to overhaul the entire securities finance ecosystem. We're going to do it with everybody in the business, both clients, competitors, and other vendors. We feel strongly that this industry has come a long way, but we still have a long way to go. I'd say largely due to the innovation from EquiLend we've succeeded in fully automating the trading side of the business. We now need to automate the rest of the business.

JW: Are there other areas of securities finance in need of innovation and – if so – what are the most pressing on the agenda?

BL: There's stuff that's under way, such as a new collateral management tool, a new exposure management tool, we have a swaps product, and we're getting into the synthetic space.

We're a highly regulated entity in Ireland and passported into Europe, and also regulated in the UK, Canada, the United States, Hong Kong, Japan, Australia, I could go on and on. So, we have a very high profile with the regulators around the world and that's by design. We think that's the right model. We embrace that, and we look forward to working with regulators to assist and create greater transparency in the marketplace.

On a practical level, it's interesting because at the very beginning of the pandemic when firms were really scurrying to figure out how to manage their business in this new environment, the initial reaction was, 'well, let's just go to our business continuity site or our business resumption site'. Obviously that model didn't work because we were not supposed to be together. We needed a fully distributed solution where everybody was at home or remote. But that's not how these firms have designed their technology. It's not how they've designed their processes.

Even though things like our trading solution – NGT – have been around for years, it wasn't until the pandemic that people fully appreciated just how fully automated it is. It's 100% automated and doesn't require anybody to be anywhere. The computers take care of the transactions behind the scenes. So, we had our highest trading days ever last March and I think people were genuinely surprised by that.

Take the post-trade part for example, it's not automated, and now there's more resource allocated to that than any other part of the business. People like to cut expenses, not add expenses, so when it's a cost centre like that, they're looking for better solutions, and that's something that we're very much engaged in right now.

JW: Do you see industry consolidation among trading venues in the future and what would that mean for the securities finance industry?

BL: Typically, when people ask me that question, they want to talk about blockchain. We think that blockchain technology is a fantastic technology. We also believe that a distributed ledger solution makes a lot of sense for our industry. But I don't think we should put the cart before the horse. And while it's an incredible, fantastic technology, it doesn't necessarily apply equally to all businesses and workflows and processes around the world.

Sometimes, I think people get ahead of themselves and want to make it about that, when in fact the right way to do it is to really understand the business, understand the workflow and apply the best solutions possible for that particular workflow, and that might include blockchain or it might not.

But with regards to consolidation, I think it is inevitable, not just in the service provider space, but I think you will see consolidation among the banks for a lot of different reasons, mainly having to do with cost of capital and return on equity, return on investment. As more and more efficiencies are created, and as some spreads collapse, then the rationale for being in that business may or may not be as great as it once was, and I think that that will help to push greater consolidation.

I think it's also logical that there will be consolidation on the service provider side. Just look at the proliferation of service providers in the collateral space in the last few years, it's been incredible. I saw a survey of all the service providers in the collateral space, including EquiLend and there are almost 40 companies on that list. That seems like a lot. I think the marketplace is big enough that many will survive and prosper, but I don't think there will still be 40.