Mapping Capital Markets industry transformation

Capital Markets firms are navigating change—are you ready?

Ready for Next

Capital Markets after COVID-19

The COVID-19 pandemic hit the Capital Markets industry like a thunderbolt. Virtually overnight, banks had millions of employees working entirely remotely. The most incredible thing about the unprecedented pace of change is that... it worked. Aside from a few higher-profile hiccups, many banks and other sell-side firms seamlessly shifted core processes and systems to an entirely virtual environment.

The unprecedented pace of change in the wake of COVID-19 points to an essential reality for Capital Markets leadership. Major transformation is possible—even in a short period. In fact, the public health crisis served to only accelerate transformation that was already happening.

This eBook maps transformation hotspots in the Capital Markets industry. We plot how firms are changing business and operating models, providing a glimpse into the future of the Capital Markets space.

The pressure on firms to transform their business and operating models is greater than ever.

Your transformation roadmap

Regulatory pressures combined with heightened client demands make it difficult for firms to achieve profitable growth, even under the best conditions. Now, even more so, firms are facing tremendous uncertainty as economic fallout from the COVID-19 pandemic wreaks havoc across global markets. The pressure on firms to transform their business and operating models is greater than ever. To achieve a return on equity that's higher than the cost of capital, tinkering around the margins won't cut it. Small, incremental changes no longer suffice. Leading firms recognize that long-term competitive readiness requires wholesale transformation of key business activities and processes.

Here is a roadmap to what the transformation landscape looks like ›

Vijay Mayadas
Capital Markets

Ongoing margin pressure and customer demands are forcing Capital Markets firms to rethink their business models.

PART ONE

Business model transformation

Ongoing margin pressure and customer demands are forcing Capital Markets firms to rethink their business models. For years, smaller firms have carved out niche specializations, drawing clients away from legacy incumbents on the promise of smarter plays in exotics and new markets. Now, firms of all sizes are refocusing on core offerings and differentiators. Along with redefining client targets and products, firms are taking a fresh look at geographies, capital allocations, and business structures.

Three main drivers propel business model transformation:

- Digitization of the customer experience (CX)
- Product development
- Mutualization

The main driver of transformation in customer experience stems from the digitization of core client service activities.

Nidhi Singh
Capital Markets

The digitization of CX

According to a recent Ernst & Young survey,[1] 4 of 5 customers say the client experience is as important as the products or services a company provides. It's no surprise that firms which prioritize the customer experience are finding significant returns on customer loyalty and brand appeal.

The main driver of transformation in customer experience stems from the digitization of core client service activities. From onboarding new clients to asset servicing and ongoing relationship management, we are witnessing a true customer-centric revolution in financial services.

The digitization of CX brings significant cost savings for firms too. The more clients can do on their mobile device, the fewer resources are required on the sales and client servicing side of the business.

[1]https://www.ey.com/en_us/banking-capital-markets/how-thinking-like-a-customer-can-transform-the-banking-experience

KEY TRENDS

- Customer-focused sales and marketing
- Movement toward specialization
- Focus on cross-selling products and services
- Bundled pricing for custom packages

Product innovation

Most firms are no longer trying to be all things to all customers. Instead, they are focusing on unique markets and targeted sales plays.

To enhance the client experience and boost profitability, firms are looking less at product-driven marketing and focusing more on customer objectives. This approach enables firms to deliver value-added products and services, while at the same time finding new opportunities for different lines of business. Transformation in this respect requires rethinking how products are grouped and marketed.

To enhance the client experience and boost profitability, firms are looking less at product-driven marketing and focusing more on customer objectives.

CASE IN POINT: CREATING NEW MARKETPLACES

Corporate bond trading suffers from antiquated processes and deep information asymmetries. In the past, most transactions were relationship-driven and facilitated via phone call.

Now Broadridge has launched LTX, which has engineered a unique platform that leverages next-gen technology to mutualize the process and bring together dealers and investors to build a more efficient market.

Thanks to AI-driven data analytics, sales teams and traders have more insight into historical data and investor needs. Investors also get unprecedented insight into market liquidity. It's a win-win for all parties.

LEARN MORE ABOUT LTX

Mutualizing operations promotes straight-through processing, significantly freeing up resources for investment into core differentiating activities.

Mutualization

As firms rethink their business model and redefine their scope, more businesses are outsourcing non-differentiating functions onto industry utilities. Shared utilities enable firms to unlock economies of value, while also benefitting from ongoing innovation and investment. Plus, there's a considerable advantage with respect to data sharing and transfer.

In traditional post-trade processes, for example, reconciling an exception requires two distinct entities to communicate across siloed platforms. It takes time and resources to gather the data, identify, and then resolve the exception. If both parties operate on the same utility, however, it's much easier to automate that resolution. Mutualizing operations promotes straight-through processing, significantly freeing up resources for investment into core differentiating activities.

PART TWO

Operating model transformation

Firms that aim to rethink products, services, and the customer experience need to free up resources and capital to do so. The reality is that it's expensive to rethink business models and pivot to new markets. That's why it's imperative for firms to transform their operating models.

By driving down operating costs and increasing margins, firms can gain the resources and capital needed to pursue innovation and transformation elsewhere.

Transformation in this space is being propelled by three main drivers:

- Technology modernization
- Platform consolidation
- Data management

GO BEYOND COST SAVINGS

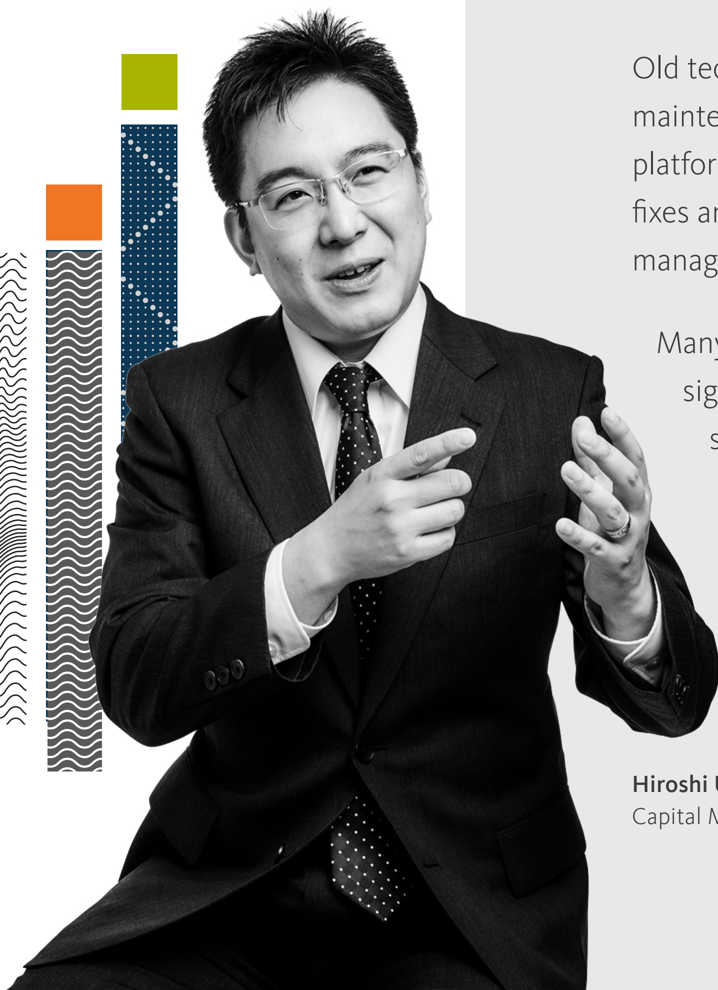
- Increased efficiency
- Straight-through processing
- Accelerated product deployment
- Enhanced data connectivity

Many firms are finding that technology modernization helps to significantly drive down operating costs.

Technology modernization

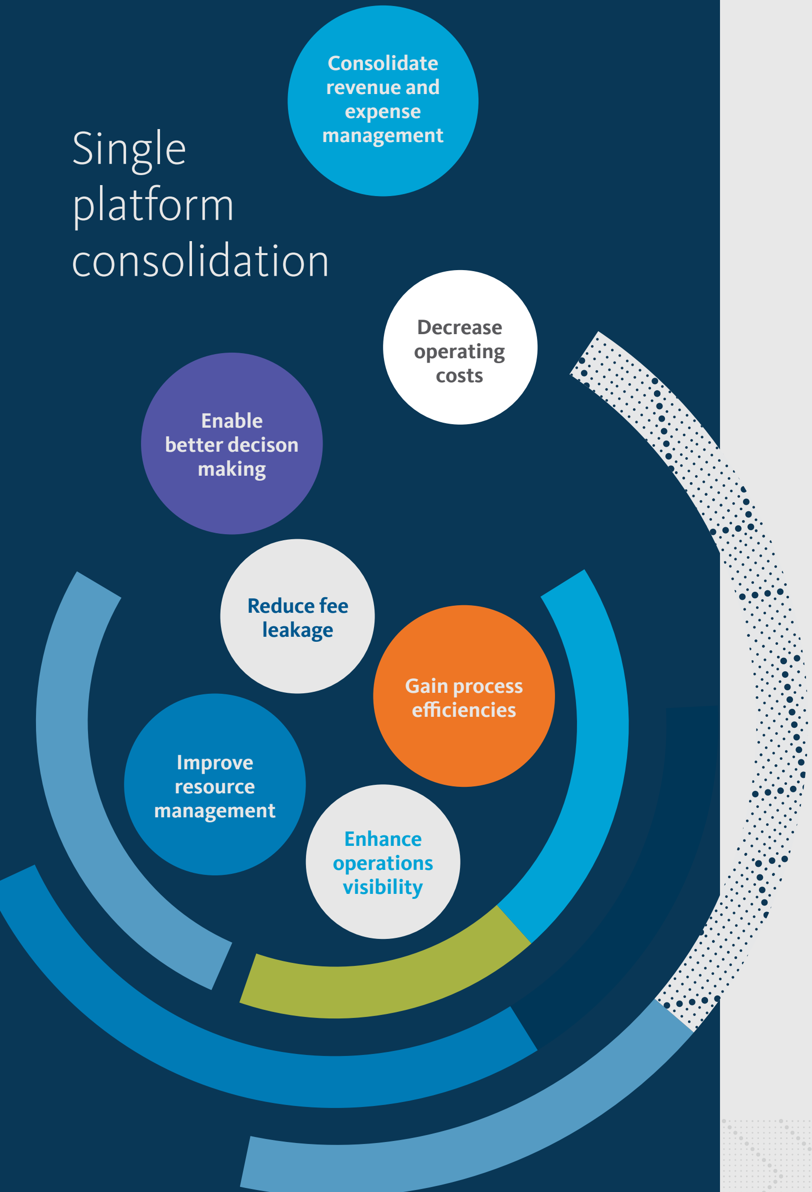
Old technology is expensive. It's slower and involves significant ongoing maintenance costs. Bloated IT departments are needed to service outdated legacy platforms because these systems require in-depth institutional knowledge to patch fixes and create ad-hoc workarounds. Bottom line: You need in-house expertise to manage in-house headaches.

Many firms, however, are finding that technology modernization helps to significantly drive down operating costs. For example, post-trade processing solutions increase efficiency, facilitate straight-through processing, and deliver greater agility. Modern APIs and built-for-purpose solutions enable firms to launch new products faster while connecting to the data they need to work smarter.



Hiroshi Uemura
Capital Markets

Single platform consolidation



Platform consolidation

The modern global investment bank typically manages operations in as many markets as it serves. Similarly, midsize banks build up a sprawling network of offices, platforms and systems, spanning various geographies and lines of business. The operating costs barely outpace the operational inefficiencies.

Like the gains delivered by technology modernization, firms are finding that merely bringing together disparate systems onto a single platform can dramatically decrease operating costs and reduce risk. For example, imagine bringing all revenue and expense management together in one place. Along with process efficiencies and reduced fee leakage, you can derive improved visibility into operations, enabling better decision-making and resource management.

The shift towards improved data reconciliation and reduced data asymmetrics is being driven by innovative technologies.

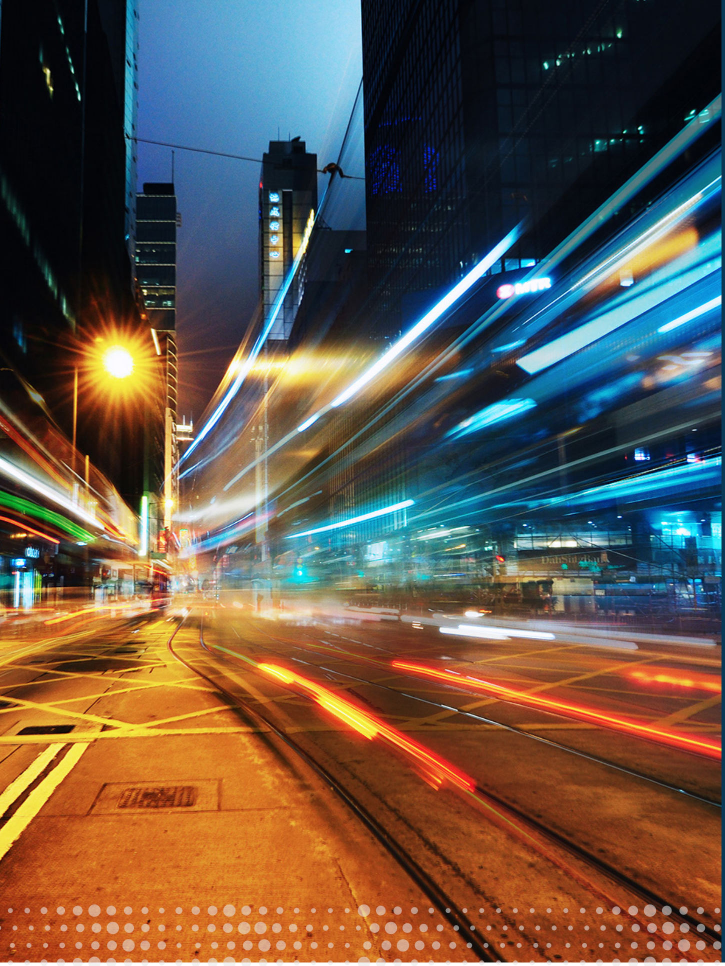
Data management

In the past few years, data management has undergone significant transformation. Along with greater data visibility and insight that has been achieved through platform consolidation, we've seen substantial investment geared toward improving data reconciliation and reducing data asymmetries among counterparties. Both shifts are being driven by innovative technologies.

Consider the labor-intensive processes required to manage and resolve exceptions. In the old days, firms needed significant human resources dedicated to resolving each exception. By contrast, today more firms are turning toward artificial intelligence to manage data reconciliation. This includes faster onboarding for new reconciliations along with automating virtually all exception management to achieve straight-through processing.

Similar transformative advancements are happening in the bilateral repo space. Historically, the market was hampered by data asymmetries. Not only is it difficult to track and manage collateral data, but it is also challenging to track counterparties. Now, firms are using blockchain to trade collateral on a distributed ledger platform (DLT). Along with giving all parties real-time visibility into trade data, DLT also provides a single source of truth. The result: Reduced risk and much greater efficiency.

Michael Alexander
Capital Markets



Ignite your transformation

Your ability to navigate competitive threats and new technologies like blockchain, AI and robotics will impact your ROE, especially given the demands for accountability and transparency.

Broadridge is here to help you navigate. Our expertise and global networks will help you achieve your target operating model. Building on 50+ years of experience in the financial services industry, we bring the people, data, and insights needed to transform your enterprise.

Let's talk.

Broadridge, a global Fintech leader with over $4 billion in revenues and part of the S&P 500® Index, provides communications, technology, data and analytics. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

broadridge.com

CM_00183_EB_20

Broadridge®

Ready for Next

Communications
Technology
Data and Analytics