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Cost of Capital Still Greater Than ROE:’ Q&A

Michael Alexander, president of wealth and capital markets solutions for Broadridge Financial Solutions in North America, says firms are under “incredible pressure” to cut costs. The Ops Business Person of the Year wrestles with this and related issues via FTF News, which oversees the Technology Innovation Awards.

by Eugene Grygo



Michael Alexander, president of wealth and capital markets solutions for Broadridge Financial Solutions in North America

(As he sees it, the biggest industry challenge right now is the stubborn fact that the cost of capital is still greater than the return on equity (ROE), says Michael Alexander, president of wealth and capital markets solutions for Broadridge Financial Solutions in North America. This translates into

ongoing pressure to cut costs and grow profit margins, adds the man who was voted Ops Business Person of the Year for 2018 via the FTF News Technology Innovation Awards. On his LinkedIn page, Alexander describes himself as a “results oriented financial services executive with a proven record

leading global securities operations and businesses.” An industry veteran, he has served in a variety of positions with Charles Schwab & Co., the Pershing Division of Donaldson, Lufkin & Jenrette, and Shearson Lehman Brothers.)

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“In the last five years, we invested over \$1 billion in organic technology development and strategic acquisitions in the interests of our 45 clients.”

Q: What is Broadridge's view on industry transformation?

A: An industry challenge right now is that the cost of capital is still greater than the return on equity. The industry has reduced costs by \$40 billion since 2008, and yet firms are still facing incredible pressure to reduce costs and expand profit margins.

Under their current business model, firms have limited options and what they have used in the past to gain savings may not work going forward. Now there is an opportunity to leverage emerging technology which will enable firms to pursue operational transformation more aggressively.

While transformation is essential, firms face challenges of justifying investment cost and centralizing data, which is often disparate. In a recent Broadridge survey, 53 percent of respondents stated that data quality and standardization is a top challenge. Also, 40 percent of respondents stated they face difficulty justifying a business case.

Additionally, many firms often lack the budget or internal ability to leverage emerging technologies to create their own solutions.

In the same survey, 96 percent of respondents see value in partnering with firms like Broadridge who can help them mutualize innovation and cost of investment.

At Broadridge, we don't scale our solutions to businesses, we scale to industry, so we take on the financial investments and allocate resources to leverage emerging technologies. By working with us, our clients are able to

benefit from our network value effect based on our large scale. . Our network value enables firms to benefit from our vast array of data and our ability to reimagine the way our industry currently transacts business.

We are currently working on technology that will greatly enhance the way counterparty activity is resolved.

Q: Which emerging technologies do you think are the most promising?

A: That's a difficult question to answer



because the opportunities vary from firm to firm and are dependent on the problem and solution firms are addressing.

Robotics provides quick-to-market capabilities and can automate a lot of existing processes. We refer to our robots as “digital labor,” because we believe that technology and humans can be partnered to create innovative and efficient solutions. However, we stress that in many instances doing this effectively requires a reimagining of tasks and processes for machines rather than humans. Our successes in this reimagining of digital labor come from

a combination of expertise, industry relationships and curiosity. We've made our offices a “ground zero” for research and experimentation, bringing the most innovative solutions forward for pilots with our client partners and eventual introduction to our full suite of services.

More complex technology such as artificial intelligence (AI), machine learning (ML), cognitive learning and blockchain provide the most compelling opportunities to truly transform the industry and reimagine the way we operate.

Firms are already using these technologies to increase advisor productivity, implement trading strategies, using analytics to make predictions and provide insights and to optimize collateral.

Q: What is your view of the evolution of managed services business and what do you expect to see in the future?

A: For many years, outsourcing was primarily about labor arbitrage. Now there is a greater need to leverage automation and transform business models. Additionally, firms are already comfortable with outsourcing their back-office functions and are expanding into front- and middle-office — as evidenced by the success of “risk as a service” and “compliance as a service.” They're operating as well as they can independently, but they aren't able to fix the inefficient interactions happening between firms.

Firms such as Broadridge that have a network value based on their large scale are now able to use these emerging technologies to automate interactions

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between firms in way that firms cannot do on their own.

There is no “end game” to managed services, as we see it – there will always be new, cutting-edge ways to improve services for our clients, and we will continue pursuing them. It is an ideal space to introduce innovation and we work to drive this exploration to the next level.

In the last five years, we invested over \$1 billion in organic technology development and strategic acquisitions in the interests of our 45 clients.

Outsourcers can now provide previously unequalled visibility in terms of governance, transparency and risk

mitigation. But the world only just cracked the shell on the potential for AI and ML. For now, we’re going to continue to focus on listening and responding to our clients’ needs and investing in automation to help our clients grow and transform their business.

Q: What do you enjoy about working at Broadridge?

The culture and teamwork across our firm is world-class and we have the opportunity to service all financial service firms and their investors. We are extremely client centric and focused on doing the right thing for the greater good of the industry, our associates and clients. **FTF**



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